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# VISION

Shang Properties is committed to be the leading developer and manager of prime properties in the Philippines.

# MISSION

Leading through product innovation
Delighting with excellent service
Fostering fair treatment and mutual respect
Empowering people to attain their full potential
Upholding good corporate citizenship

# **CORE VALUES**

**S**ervice

Honesty

Asian

**N**obility

Global

# MESSAGE TO OUR SHAREHOLDERS

#### To my fellow shareholders,

As you read this, some amount of normalcy would have returned to our communities following the first half of 2020 when COVID-19 made dramatic changes in the way we live and work. During that period, disruption to our organization's services and developments were kept under control because of the timely intervention of management and our employees. Their response to these challenging circumstances is appreciated, and this same ability together with other encouraging events gave rise to the Company's performance in the past year.

Here are key highlights of our company in 2019.

The country's strong economic fundamentals spurred a 5.9% growth in national gross domestic product, among the most robust in the entire region. The real estate sector reflected this through sustained demand and significant property value appreciation. Before any property revaluations, Shang Properties posted a 13% net income growth year-on-year driven by the warm market reception of our residential projects and the continued momentum from our commercial portfolio.

#### Residential projects

Demand for our residential developments was sustained by SPI's commitment to deliver dwellings that our discerning clients appreciate. We launched in the last quarter of 2019 Aurelia Residences, a joint venture with Robinsons Land Corporation and conceptualized to be an attractive address in Bonifacio Global City, easily the country's fastest

growing business district. Within weeks, 46% of its 285 premier units were sold, generating PhP17.3 billion in sales values.

The central location of Shang Residences at Wack Wack within the metropolis combined with quality spaces and amenities have continued to attract interest for the development. Launched in September 2018, this project has sold close to 50% of its 404 units, generating approximately PhP5.9 billion in sales values year to date. The project reflected 2019 year end revenues of PhP237.0 million and a net income of PhP101.0 million.

During the year, The Rise Makati, our residential development only a ten-minute walk from the Central Business District, marked the milestone of turning over condominium units to their owners. As of May 31, 2020 over 1,050 units have been delivered to buyers and 96% of the 3,044 residential units in the project have been sold. Since launch, the development, which integrates retail outlets, has generated total sales amounting to PhP12.3 billion. For the year 2019 project revenues and net income registered at PhP4.0 billion and PhP1.1 billion respectively.

#### Commercial Leasing

Our premium grade office building, The Enterprise Center in the Makati Central Business District, recorded an annual average occupancy of 98%. Both multinational and local tenants take pride in this prestigious address at the heart of the country's financial center.

For the past three decades, our organization has remained highly focused on projects that are well received by our clients and generate confidence and trust in our name.

Amidst the rise of newer retail and lifestyle developments in Manila, Shangri-La Plaza held its own as the premiere shopping destination in Mandaluyong City offering luxury and best-in-class shopping, dining and entertainment options. The mall's average occupancy remained at a healthy 94% of net leasable area. Revenues grew year-on-year by 8% to PhP1.6 billion.

SPI expanded its leasing portfolio with the opening of Assembly Grounds at The Rise in October 2019. Its 5,000 square meters of carefully curated retail is designed to seamlessly integrate into the masterplan of The Rise Makati. The development has become part of the lifestyle of residents within the complex and those in the surrounding communities seeking a blend of convenience, comfort and style.

For the past three decades, our organization has remained highly focused on projects that are well received by our clients and generate confidence and trust in our name. We are now in advanced stages of acquiring additional strategic properties that will

secure our business' growth over a longer period. Through new projects, we shall continue engaging our discerning customers with future undertakings that reflect our brand's values.

In closing, our outlook as an organization remains positive. The recent pandemic that has affected everyone has revealed a pressing need for healthier and safer environments. This need represents an opportunity for us as responsible and responsive property developers.

Allow me now to thank you, our shareholders, for your continued faith in our organization. I would also like to express my gratitude to our Board of Directors for their unwavering support and commitment to the company. And finally, I give my thanks to our management and employees for their hard work in 2019.

**EDWARD KUOK KHOON LOONG** 

Chairman of the Board



Aurelia Residences embodies elegant living unlike any other, built right at the heart of Bonifacio Global City, one of the most sought after addresses in the country, this sophisticated residential development features a milieu of metropolitan horizons and vast green landscapes of Manila Golf Club, Manila Polo Club, and Forbes Park.

A work of art crafted by the unrivaled collaboration of architects, designers, and artisans that epitomize the best in their field, a residential vision inspired by sprezzatura, the effortless and understated sense of timeless Italian elegance.

## A Coveted Luxe Residence

An architectural and interior design vision, the limited 285 bespoke homes that make up Aurelia Residences' iconic three-petal form provide expansive terrace views coupled

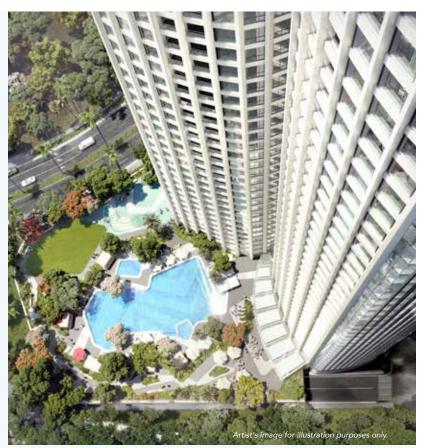
Artist's image for illustration purposes only.

with the finest features and amenities such as the luxurious resort pool, jacuzzi, function rooms, home cinema space, winged lounges, and a spiral staircase.

Capturing the refined taste of the truly discerning, more than 46% of Aurelia Residences units have been sold achieving sales worth over PhP17.3 billion. Excavation for its site was completed November 2019, and substructure work began the same month.



To view the Aurelia Residences Showsuite 360° Live Tour, please scan the code.





Artist's image for illustration purposes only.



Shang Residences at Wack Wack is a residential development set in the stunning and stately neighborhood of Wack Wack in Mandaluyong. A locale with sprawling greenery and sweeping views, matched by the equally verdant golf courses of the iconic Wack Wack Golf and Country Club. This choice address is where you can get away from the bustle of city living while having the accessibility of modern urban conveniences.

The 50 storey residential high-rise is the perfect dwelling for those looking for both relaxation and recreation. Aside from tastefully designed one, two, and three bedroom homes, cocooned within the property are prime facilities and comforts that give residents the feel of being housed in a luxury resort.

Artist's image for illustration purposes only.



# Luxury Resort Living

A resident's own private tropical getaway, one need not stray from Shang Residences at Wack Wack to unwind and rejuvenate. Its amenities include a gym, steam room, and swimming pool which allows the homeowner to keep fit. Other features are well-furnished spaces such as the kid's zone, panorama room, lounge, poolside pavilion, mini theater, and billiard room. The amenities of Shang Residences at Wack Wack provide leisure and entertainment for the whole family.

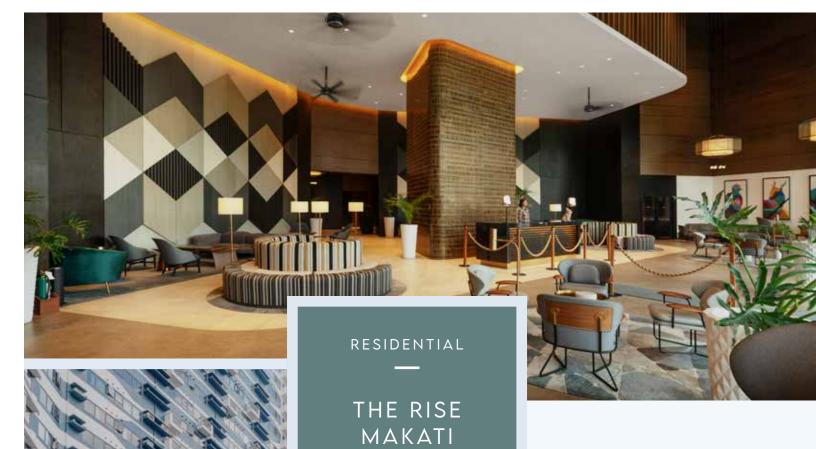
Almost 50% of the units have already been sold as of December 2019, generating sales worth over PhP5.9 billion.



To view the Shang Residences at Wack Wack 3 Bedroom 360° Virtual Tour, please scan the code.



Artist's image for illustration purposes only.



The Rise Makati is situated in the artisan community of North Makati which houses a vibrant variety of galleries, delicatessens, indie music venues, and boutiques. This condominium project offers innovative lifestyle choices unlike any other.

Over 3,000 residential units of The Rise Makati sit atop a two-level boutique mall that offers residents privacy, safety and convenience for everyday living. At 59 storeys high, this distinct world-class development allows its homeowners to create the kind of home that suit their lifestyle.



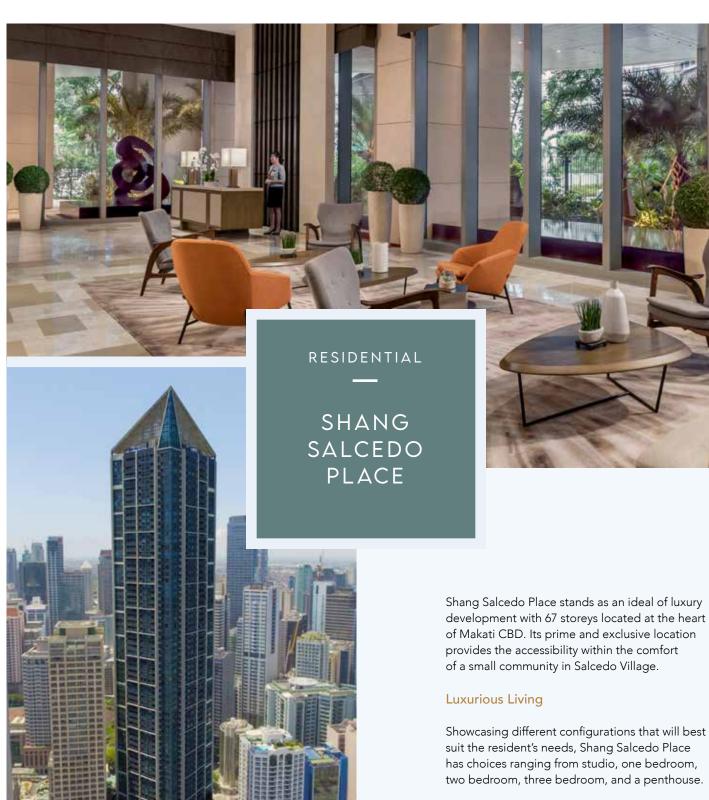
# Living Life Your Way

The Rise Makati offers homeowners brand new concept in amenities with its curated spaces: The Hangout, The Nest, and The Workshop.

Turn get-togethers and entertaining to an unforgettable experience at The Hangout with its 300 square meters of open lounge areas, which also has karaoke rooms and a billiard room. Enjoy being nestled in comfortable seats amidst the garden terraces and sun deck of The Nest, where one can simply kick back and relax. The Workshop is the best space for thinking or inspiring new ideas. This functional zone allows you to work, study or plan.

More than 96% of the units in The Rise Makati have already been sold as of December 2019, bringing in sales of PhP12.3 billion. About 34% have been turned over to unit owners since May 31, 2020.





Shang Salcedo Place stands as an ideal of luxury development with 67 storeys located at the heart of Makati CBD. Its prime and exclusive location

suit the resident's needs, Shang Salcedo Place has choices ranging from studio, one bedroom, With its complete range of amenities, one can indulge in the adult and kids' swimming pool, podium garden, children's indoor and outdoor play area, multi-purpose game room, fully-equipped gym, exercise room, function rooms, and jogging path.

Shang Salcedo Place turned over all of its units to buyers as of December 2019. The project brought in a total sales of PhP6.5 billion.







Shangri-La Plaza remains to be the most established upscale and lifestyle destination in the Ortigas Business District.

Continuous fine tuning of the tenant mix has enabled the Mall to resonate not only with its core market but also with the emerging cohort of young economically empowered shoppers within the 5 kilometer trading radius.

By the end of 2019, Shangri-La Plaza's occupancy was at 94%.

Aside from a strong merchandise mix as a compelling driver for shoppers to visit the mall, there is the popularity of events and shows that make Shangri-La Plaza very exciting and dynamic in 2019. It has been quite a year for Shangri-La Plaza with its eclectic array of events and shows.







Committed to promoting culture and the arts, Shangri-La Plaza has hosted various cultural activities, among them are Samurai Drum Rock by the famous Drum Tao group of Japan, and Celebration, an all Filipino dance repertoire by Ballet Philippines. Live at the Shang!, a series of performances at the Grand Atrium generated buzz and interest especially among younger mall guests by showcasing some of the country's best known musical acts like Bamboo and Ebe Dancel, and emerging young artists such as I Belong to the Zoo and Ransom Collective.

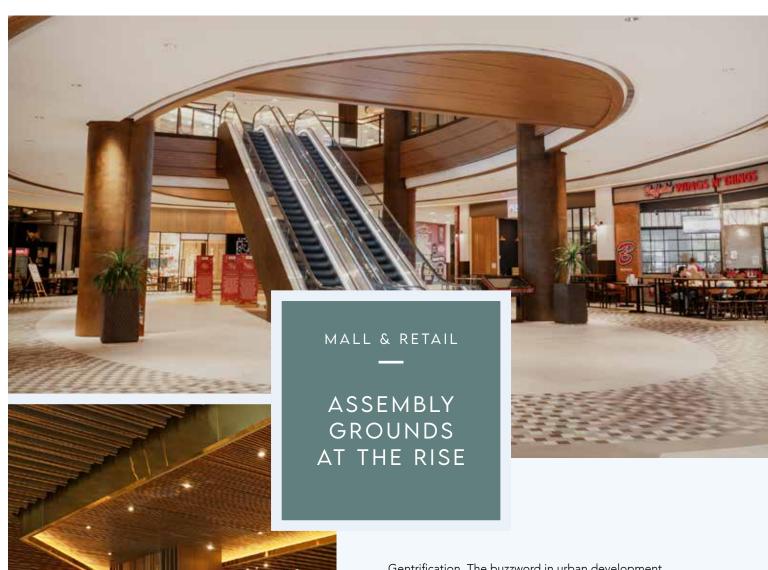
As the home of foreign film festivals, the Red Carpet has given local cinephiles a rich, diverse taste of world cinema. Popular, long-running festivals like the Spring Film Festival (China), and Eiga Sai (Japan) continued their annual screenings, while Argentina and Denmark were back at the Red Carpet for repeat runs. Shangri-La Plaza also introduced the movie-going public to new film destinations including Korea, India, and Mexico.

Enhancing the overall Shangri-La Plaza experience in 2019 were the intricate seasonal décor the mall has long been known for. Mall guests were treated to the splendor of

Under the Sea wonders during the exciting summer months, while the happiest time of the year saw Santa's Wonderland come to life at the Shang. Fashion shows Sun, Sand, and Squad for summer and Sparkle for the holidays showcased the latest trends from retail partners for two of the country's biggest fashion seasons.

As the foremost destination for delightful dining experiences and some of the best restaurants in Metro Manila, Shangri-La Plaza hosted the Gourmet Fest in November, which celebrated all the mouthwatering food and drinks our dining partners have to offer. Finally, the mall kicked off the holiday celebrations with the ceremonial Christmas Lighting, led by none other than "The Father of Philippine Christmas Music" Jose Mari Chan and the Philippine Madrigal Singers.

These milestones will pave the way to an exciting 2020, as another wave of landmark retail concepts are set to open. Shangri-La Plaza vows to stay relevant amidst a competitive environment.



Gentrification. The buzzword in urban development. North of Makati (NOMA) the emerging hip hub of Makati.

Assembly Grounds at The Rise opened in October 2019, by year end, the Mall was 91% signed up.

#DelightintheUnexpected is the promise to the dynamic young professionals and creative crowd of North Makati and mall guests from within the 2 kilometer trading radius.

Residents and the surrounding community can shop, dine, be entertained and pass the time within a curated mix of restaurants, retail outlets, and lifestyle services amidst Instagram-worthy environments. Its neon-themed launch last October was hosted by popular radio DJ and sports analyst Bea Fabregas, and featured music by DJ Nix Damn P.

Truly, Assembly Grounds at The Rise is the perfect place to meet up with family and friends for chill and catch up sessions at any time of the day.



Bonifacio Global City is now the country's fastest growing financial hub with 240 hectares of world-class commercial developments, upscale shopping centers, condominiums, hotels and state of the art offices. World Bank has recognized BGC as one of the best places in the country for business.

Since its opening in 2016, Shangri-La at the Fort has commanded rate leadership in Manila. On a quality perspective, the hotel has garnered a significant number of travel awards in 2019 from reputable Award-giving bodies such as Conde Nast Traveller, TTG Asia Travel Awards, Business Traveler Asia, DestinAsian Reader's Choice Awards, CTrip, and TripAdvisor.

#### Restaurants & Bar

Over the course of its three-year operation, each restaurant has managed to establish its brand experiences thanks to a very distinct and comprehensive operating philosophy each restaurant prides itself upon. This is also evident with Canton Road and Raging Bull Chophouse named Top 20 Restaurants in Tatler's Best Restaurants Guide; and with the inclusion of The Back Room in the Asia's Top 50 Bars: great feat, considering it has been open for less than a year at the time it won the award.

Shangri-La at the Fort also welcomed its newest outlet in July: Bake House. It is a neighborhood dine-in and grab & go cake and bake shop. Keeping true to its promise to embrace the thriving neighborhood of BGC, the shop focuses its efforts towards lessening waste and reducing its carbon footprint, eventually veering towards a zero-waste environment. This is evident in its use of compostable, biodegradable and recyclable packaging, recycling of safe food items, as well as glass bottles for its beverage to go.



KSA Realty Corporation is the majority owner of The Enterprise Center, an architectural landmark located at the crossroads of Ayala Avenue, Paseo de Roxas and Dela Rosa streets in the Makati Central Business District. The prestigious address of the top names in Philippine business, it showcases impeccably planned facilities, conceived and designed to meet the exacting demands of high-level decision makers.

The Enterprise Center's two towers has a combined gross floor area of 147,000 square meters. It has an international food court that can accommodate about 350 people and has 15 varied concessionaires and top quality local and international retail chains.



The Enterprise Center is registered with the Philippine Economic Zone Authority (PEZA), which allows its IT-related tenants various benefits and incentives to enhance their local and international operations. The Enterprise Center is managed by Shang Property Management Services Inc. (SPMSI), a 100% subsidiary of Shang Properties, who also provides top of the line property management services for SPI's residential developments.

The Enterprise Center ended 2019 with an average Occupancy Rate of 98% on generated revenues of PhP1.45 billion representing a 15% increase versus 2018.





Shang Properties, Inc. (SPI) has compiled its first annual sustainability report in compliance with the SEC guidelines and taking inspiration from the GRI standards.

While our parent company has been strongly committed to sustainability and sustainable development throughout its operations, this is the first opportunity of SPI to publish its sustainability performance.

SPI is committed to continue its efforts towards sustainable development. While this section is a brief summary, our full disclosure on sustainability performance can be accessed through the QR code at the end of this section.

## **Materiality Process**

In preparing its first Sustainability Report, the Organization made reference to the Global Reporting Initiative (GRI) Standards, as well as the Securities and Exchange Commission (SEC) Memorandum Circular No. 4, Series of 2019.

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The Organization adopted the subsequent approach to identify material topics:

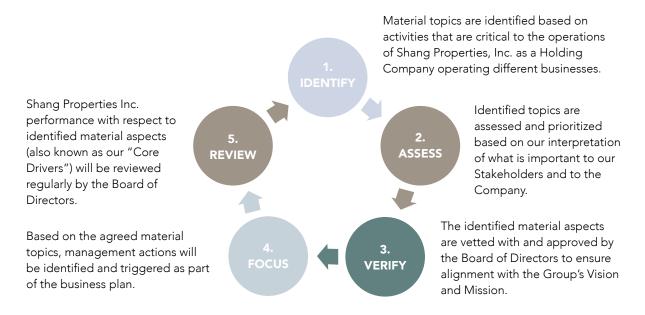
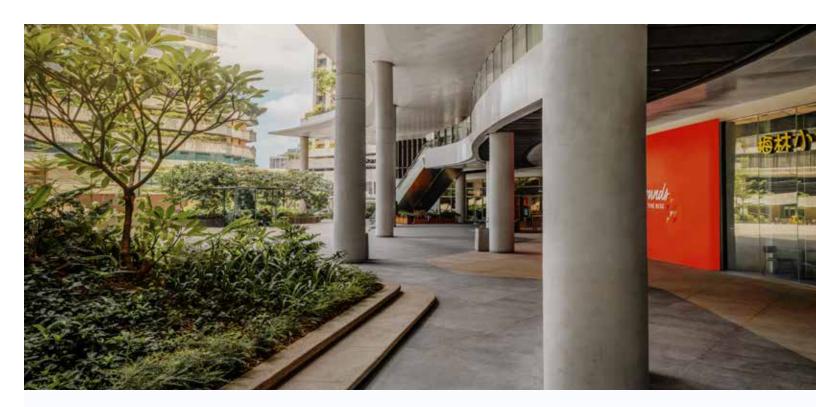


Figure 1 Materiality Assessment Approach

The Organization has identified and prioritized the following Core Drivers for the Company and its Stakeholders as duly reflected in its Sustainability Framework based on the Materiality Assessment:







Data for some disclosure topics in this report are from specific subsidiaries of the Organization and not all Companies within the Group. This is reflective of its materiality and relevance to the operation of the Organization and the maturity of data collection systems that are currently in place as first time reporter on sustainability performance. We have provided specific information on such disclosures in the coming sections.

# **ECONOMIC**

# **Economic Performance**

## **Direct Economic Value Generated and Distributed**

Disclosure	Amount	Units
Direct Economic Value Generated (Revenue)	9,293,678,969.00	PhP
Direct Economic Value Distributed:		
a. Operating Costs	4,707,932,098.00	PhP
b. Employee Wages and Benefits	244,082,645.00	PhP
c. Payments to Suppliers, Other Operating Costs	578,466,985.00	PhP
d. Dividends given to Stockholders and Interest Payments to Loan Providers	2,283,031,542.00	PhP
e. Taxes given to Government	98,081,840.00	PhP
f. Investments to Community (e.g. Donations, CSR)	4,424,980.00	PhP

# **Anti – Corruption**

## **Training on Anti - Corruption Policies and Procedures**

Disclosure	Amount	Units
Percentage of Employees to whom the Organization's Anti – Corruption Policies and Procedures have been Communicated	100.00	%
Percentage of Business Partners to whom the Organization's Anti – Corruption Policies and Procedures have been Communicated	100.00	%
Percentage of Directors and Management that have Received Anti – Corruption Training	48.63	%
Percentage of Employees that have Received Anti – Corruption Training	48.63	%

## **Incidents of Corruption**

Disclosure	Amount	Units
Number of Incidents in which Directors were Removed or Disciplined for Corruption	0	#
Number of Incidents in which Employees were Dismissed or Disciplined for Corruption	0	#
Number of Incidents when Contracts with Business Partners were Terminated due to Incidents of Corruption	0	#

# **ENVIRONMENT**

# **Solid and Hazardous Wastes**

# **Solid Wastes**

Disclosure	Amount	Units
Total Solid Waste Generated	88,189.64	Kg
Reusable	0.00	Kg
Recyclable	61,369.94	Kg
Composted	0.00	Kg
Incinerated	0.00	Kg
Residuals/Landfilled	26,820.00	Kg

# **Hazardous Wastes**

Disclosure	Amount	Units
Total Weight of Hazardous Waste Generated	9,915.68	Kg
Total Weight of Hazardous Waste Transported	8,800.42	Kg

# **Effluents**

Disclosure	Amount	Units
Total Volume of Water Discharges	640,638.67	Cubic Meters
Percent of Wastewater Recycled	38.55	%

# **Environmental Compliance**

# Non – Compliance with Environmental Laws and Regulations

Disclosure	Amount	Units
Total Amount of Monetary Fines for Non – Compliance with Environmental Laws and / or Regulations	4,103,900.00	PhP
No. of Non – Monetary Sanctions for Non – Compliance with Environmental Laws and / or Regulations	0	#
No. of Cases Resolved through Dispute Resolution Mechanism	0	#

# SOCIAL

# **Employee Management**

# **Employee Data**

Disclosure	Amount	Units
Total Number of Employees*		
a. Number of Female Employees	550	#
b. Number of Male Employees	616	#
Attrition Rate**	7.725	Rate
Ratio of Lowest Paid Employee Against Minimum Wage	1:1.26	Ratio

<sup>\*</sup>Employees are individual who are in an employment relationship with the Organization, according to national law or its application (GRI Standards 2016 Glossary)

# **Employee Benefits**

Disclosure	Y/N	% Female Employees Who Availed this Year	% Male Employees Who Availed this Year
SSS	Υ	53.27	57.79
PhilHeath	Υ	52.55	57.30
PAG – IBIG	Υ	53.45	58.12
Parental Leaves	Υ	5.98	3.24
Vacation Leaves	Υ	100.00	100.00
Sick Leaves	Υ	95.97	92.54
Medical Benefits (Aside from PhilHealth)	Υ	59.68	62.21
Housing Assistance (Aside from PAG - IBIG)	Υ	0.18	2.76
Recruitment Fund (Aside from SSS)	Υ	2.13	0.63
Further Education Support	Ν		
Company Stock Options	N		
Telecommuting	N		
Flexible Working Arrangement (FWA)	Υ	44.00	52.76

<sup>\*\*</sup>Attrition Rate = (No. of New Hires less No. of Turnover) / (Average of Total Number of Employees of Previous Year and Total Number of Employees of Current Year)

## **Labor - Management Relations**

Disclosure	Quantity	Units
% of Employees Covered with Collective Bargaining Agreements	Not Applicable	%
No. of Consultations Conducted with Employees Concerning Employee – Related Policies	No Recorded Data*	#

<sup>\*</sup>Employee consultation is part of the daily transactions of the designated HR Account Specialist

# **Diversity and Equal Opportunity**

Disclosure	Quantity	Units
% of Female Workers in the Workplace	47.17	%
% of Male Workers in the Workplace	52.83	%
No. of Employees from Indigenous Community and / or Vulnerable Sector*	12	#

<sup>\*</sup>Vulnerable sector includes elderly, persons with disabilities, vulnerable women, refugees, migrants, internally displaced persons, people living with HIV and other diseases, solo parents, and the poor or the Base of the Pyramid (BPO: Class D and E)

# Workplace Conditions, Labor Standards, and Human Rights

# Occupational Health and Safety

Disclosure	Quantity	Units
Safe Man – Hours	4,985,057	Man - Hours
No. of Work – Related Injuries	57	#
No. of Work – Related Fatalities	0	#
No. of Work – Related III – Health	0	#
No. of Safety Drills	263	#

# **Labor Laws and Human Rights**

Disclosure	Quantity	Units
No. of Legal Actions or Employee Grievance involving Forced or Child Labor	0	#

## **Customer Management**

#### **Customer Satisfaction**

Disclosure	Score	Did a Third Party Conduct the Customer Satisfaction Study (Y/N)?
Customer Satisfaction	91%	Υ

## **Health and Safety**

Disclosure	Quantity	Units
No. of Substantiated Complaints on Product or Service Health & Safety*	9,067	#
No. of Complaints Addressed	9,067	#

<sup>\*</sup>Substantiated complaints include complaints from Customers that went through the Organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.

# **Customer Privacy**

Disclosure	Quantity	Units
No. of Substantiated Complaints on Customer Privacy*	1	#
No. of Complaints Addressed	1	#
No. of Customers, Users, and Account Holders whose Information is Used for Secondary Purposes	0	#

<sup>\*</sup>Substantiated complaints include complaints from Customers that went through the Organization's formal communication channels and grievance mechanisms as well as complaints that were lodged to and acted upon by government agencies.

## **Data Security**

Disclosure	Quantity	Units
No. of Data Breaches, including Leaks, Thefts, and Losses of Data	0	#



To view the full Shang Properties, Inc. 2019 Sustainability Report, please scan the code.

# **BOARD OF DIRECTORS**

Edward Kuok Khoon Loong is the Chairman of the Company and also Vice Chairman of Kerry Holdings Limited. He has been with the Kuok Group since 1978. He has a Master's Degree in Economics from the University of Wales in the United Kingdom.

Alfredo C. Ramos is the Vice Chairman of the Company. He is the Chairman of the Board of Anglo Philippine Holdings, Inc., Anvil Publishing, Inc., Carmen Copper Corporation, NBS Express, Inc. and Atlas Consolidated Mining & Development Corporation and Aquatlas, Inc. He is the Chairman and President of Alakor Corporation, National Book Store, Inc., The Philodrill Corporation, Vulcan Industrial & Mining Corporation, United Paragon Mining Corporation and NBS Subic, Inc. He is also the President of Abacus Book & Card Corporation, MRT Holdings Corporation, Power Books, Inc., TMM Management, Inc. and Zenith Holdings Corporation. He is Vice Chairman of MRT Development Corporation and Shangri-La Plaza Corporation. He is also the Governor of National Book Development Board.

Antonio O. Cojuangco is the Chairman and/or President of various companies and organizations such as Ballet Philippines, CAP Life Insurance Corporation, Cinemalaya Foundation, Mantrade Development Corporation, Nabasan Subic
Development Corporation, Philippine Trade
Foundation, Inc., Radio Veritas, Tanghalang
Pilipino, and Calatagan Bay Realty. He is also a
Director in Tiger Resort Leisure and Entertainment
Inc. He graduated Summa Cum Laude with
an AB Economics degree from the Ateneo de
Manila, and obtained a Master's in Business
Administration from Stanford University.

Cynthia Roxas Del Castillo is a Senior Partner and a member of the Executive Board at Romulo, Mabanta, Buenaventura, Sayoc & de los Angeles and has been with the firm for over 30 years. She holds an Ll.B from Ateneo, graduated Valedictorian in 1976 and placed 11th in the 1976 Bar Examinations. She was a former Dean of the Ateneo de Manila University's Law School and the first woman to hold the said position. She currently serves as Corporate Secretary and Director of other various Philippine corporations.

Karlo Marco P. Estavillo is the Chief Operating Officer, Chief Finance Officer, and Treasurer of the company. Atty. Estavillo was Vice President and General Manager of one of the operating business units in one of the largest conglomerates in the country, where he was also Corporate Secretary and Compliance Officer. He was likewise a member of the Board of Directors of a universal

bank, as well as a top local insurance company. He served in various committees, including Audit, Trust, Legal Oversight, amongst others. He earned a Bachelor of Laws degree from the University of the Philippines, and a Bachelor of Science in Business Management degree from the Ateneo de Manila University.

Koay Kean Choon is the Senior Project Director of the Company. He started as M&E Manager with Kerry Project Management Ltd. Hong Kong from 1989 to 2000 where he rose to Project Manager. He was Senior Project Manager for Shangri-La Hotel Management Ltd. from 2000 to 2011.

Maximo G. Licauco III is the President of Filstar Distributors Corporation (Licensee of Hallmark Cards and exclusive distributor of BIC Products). He was previously an Area Vice President of National Book Store, Inc. where he spent 34 years in the retail business. He graduated at the Ateneo De Manila University with Bachelor of Arts Degree major in Economics.

Benjamin I. Ramos is the President of ROI Corp., an investment company. He was previously the President of Powerbooks, Inc., and also President of Tokyo Tokyo, Inc., the largest Japanese fast food chain in the Philippines. He has an MBA from the Stanford Graduate School of Business.

Wong Chi Kong Louis has been the Chief Financial Officer of Kerry Properties Limited (KPL) since 2007 and Executive Director since 2018. He was trained and qualified as a Chartered Accountant with KPMG Peat Marwick, London, England with about 10 years of experience in auditing in the United Kingdom and Hong Kong before joining Kerry Group in 1994. Prior to taking up the position of the Chief Financial Officer of KPL, he was involved in the Coca-Cola beverage business in which the Kerry Group was a franchised bottler of Coca-Cola products in China. He is a graduate of the University of Cambridge, England.

Wilfred Shan Chen Woo is an Executive Director as well as Executive Assistant to the Chairman of the Board. A member of the Institute of Chartered Accountants of British Columbia and the Canadian Institute of Chartered Accountants since 1985. As well as a member of the Chartered Professional Accountants (CPA) of British Columbia since 2015. He graduated in 1982 from the University of British Columbia in Vancouver, Canada with a Bachelor's Degree in Commerce, majoring in Accounting and Management Information Systems.

# CORPORATE GOVERNANCE

Shang Properties, Inc. and its Board of Directors have always recognized and effected the globally accepted three (3) basic principles of corporate governance: fairness, transparency, and accountability to all its stakeholders. Shang Properties adopted its Corporate Governance Manual and submitted this to the Securities and Exchange Commission in 2002.

The following sections demonstrate the Company's compliance with these principles as detailed in the Manual during the financial year ending December 31, 2019.

#### THE BOARD OF DIRECTORS

The Board is responsible for the leadership and control of the Company and oversees its businesses, strategic directions and financial performance. It sets and provides the role modeling for the Company's values and standards ensuring further that its obligations to the Company's shareholders are understood and met. To this end, it assumes responsibility for strategy formulation, corporate governance, and performance monitoring. The management is delegated the authority and responsibility for the administration of the Company within the control and authority framework set by the Board. In addition, the Board has also delegated various responsibilities to the Executive Committee, the Audit Committee, and the Corporate Governance Committee. Further details of these committees are set out in this annual report.

The number of meetings held and the attendance record of the Board members at the Board meetings for the last three (3) years are as follows:

	2020*	2019	2018
Number of Meetings	1	5	5
Attendance			
Executive	100%**	80%	90%
Independent Non-Executive	100%**	87%	87%
Average	100%**	84%	88%

<sup>\*</sup>Meetings are held in the year-to-date

Board minutes, kept by the corporate secretary, are sent to the Directors for records, and are open for inspection.

#### **Board Composition**

The Board is currently composed of ten (10) Directors. The Directors are Edward Kuok Khoon Loong, Alfredo C. Ramos, Cynthia R. Del Castillo, Antonio O. Cojuangco, Maximo G. Licuaco III, Wong Chi Kong Louis, Benjamin I. Ramos, Wilfred Shan Chen Woo, Kean Choon Koay and Karlo Marco P. Estavillo. The biographies of the Directors are set out on pages 26 and 27 of this annual report, which demonstrate a diversity of skills, expertise, experience, and qualifications.

#### Division of Responsibilities

The Board has appointed a Chairman who provides leadership in establishing policies and business directions. The Chairman ensures that the Board works effectively, discharges its responsibilities, and discusses all key and appropriate issues in a timely manner.

The Executive Directors are tasked with the day-to-day running of the Company and are responsible for the different aspects of Shang Properties' businesses. Non-Executive Directors bring strong independent judgment, knowledge and expertise to the Board's deliberations. Apart from their election, the Non-Executive Directors do not have any form of service contract with the Company on any of its subsidiaries.

The Independent Directors take an active role in Board meetings, participate in Board Committees, contribute to the development of strategies and policies, and take the lead if and when potential conflicts of interest arise.

#### Directors' Re-election and Removal

The Directors of the Company are elected during the annual general meeting and hold office for one (1) year and until their successors are elected and qualified.

<sup>\*\*</sup>Non-resident directors attended by teleconference, zoom or other acceptable modes under SEC rules

#### Access to Information

All Directors are continually updated with legal and regulatory developments, regularly receive comprehensive information about business activities, financial highlights and operations review of the Company's business and market changes, and developments so that they are up to date and are well informed during Board meetings and to facilitate in discharging their responsibilities. The Board members are provided with Board papers and relevant materials prior to the intended meeting date, including business and financial reports covering the Company's principal business activities and are at liberty to contact management for inquiries and to obtain further information, when the advice and services of the Corporate Secretary, who ensures that they receive appropriate and timely information for their decision-making and that Board procedures are being followed. The Directors can obtain independent professional advice at the Company's expense.

#### **DELIGATION BY THE BOARD**

#### **Executive Committee**

The Executive Committee meets regularly and operates as a general management committee chaired by Wilfred Woo an Executive Director and Executive Assistant to the Chairman. The Executive Committee meets to discuss the corporate and development strategies of the Company.

#### **Corporate Governance Committee**

Pursuant to its Corporate Governance Manual, the Board created a Corporate Governance Committee. The committee acts in an advisory capacity and makes recommendations to the Board. It promulgates the guidelines or criteria to govern the conduct of the nominations of the Directors. The same is properly disclosed in the Company's information statement as well as any reports that are submitted to the Securities and Exchange Commission.

#### **ACCOUNTABILITY AND AUDIT**

#### Financial Reporting

The Management is responsible for the preparation of the financial statements, which adopt generally accepted accounting standards in the Philippines, ensuring appropriate accounting policies have been used and applied consistently, and reasonable and prudent judgments and estimates have been made. The auditing and reporting on the financial statements are the primary responsibility of the external auditor whose "Independent Auditor's Report" to the Board of Directors and shareholders is included in this Annual Report.

Towards the end of the year, the Board reviews the financial projections of the group for the financial year ending December 31 on any given year. The Management has continued to adopt a going concern basis in preparing the financial statements to ensure that any material uncertainties relating to events or conditions that may affect the Company's ability to manage effectively are met.

#### **Internal Controls**

The Board is responsible for maintaining an adequate system of internal controls and reviewing their effectiveness. The system of internal control is designed to facilitate effective and efficient operations, safeguard its assets, and ensure that the quality of internal and external reporting comply with applicable laws and regulations. In establishing internal controls, the Company has taken into consideration the nature and extent of the Company's business, operational and financial risks, the likelihood of crystallization of such risks, and the costs of implementing the relevant internal controls. These internal controls are designed to manage, but not eliminate, the risk of failure to achieve business objectives and provide reasonable, but not absolute, assurance against the risks of material misstatement, fraud or losses.

During the year ended December 31, 2019, the Board, through the Audit Committee, reviewed the risks and evaluated the internal control framework that operates within the Company and considered that the system of internal controls in operation is effective. More details on the Company's internal control framework and the Board's process to evaluate its system of internal controls is set out in the section headed internal controls on page 14 of this Annual Report.

#### **Audit Committee**

Pursuant to its Corporate Governance Manual, the Board created an Audit Committee in August 2002. Each member is required to have at least an adequate understanding of or competence on most of the Company's financial management systems and environment.

The major responsibilities of the Audit Committee are:

- To perform oversight functions over the senior management in establishing and maintaining an adequate, effective and efficient internal control framework, systems and processes to provide reasonable assurance in areas including reporting, monitoring compliance with laws, regulations and internal policies, efficiency and effectiveness of operations and safeguarding of assets;
- To perform oversight functions over the Company's Internal and External Auditors, to ensure the independence and objectivity of Internal and External Auditors, and that they are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit function;
- To review and monitor the effectiveness of the external audit process, taking into consideration relevant Philippine professional and regulatory requirements and review, at least annually, the performance, suitability and effectiveness of the external auditors;
- To review and approve Financial Statements of the Company before their submission to the Board with particular focus on (a) any change/s in accounting policies and practices; (b) areas where a significant amount of judgement has been exercised; (c) significant adjustments resulting from the audit; (d) going concern assumptions; (e) compliance with accounting standards; and (f) compliance with tax, legal, and regulatory requirements.

The number of meetings held and the attendance record of the committee members at these meetings for the last three (3) years are as follows:

	2020*	2019	2018
Number of Committee Meetings	1	5	4
Attendance	100%	100%	92%

\*Meetings are held in the year-to-date

#### Auditor's Remuneration

During the financial year ended December 31, 2019, the fees paid/payable to the External Auditor in respect of the audit and non-audit services provided by the External Auditor to the Company amounted to PhP4,349,650.

#### **INTERNAL CONTROLS**

The Board is responsible for maintaining and reviewing the effectiveness of the Company's system of internal controls. The internal controls are designed to meet the Company's particular needs, minimize the risks to which it is exposed, manage rather than eliminate the risks to achieve business objectives, and provide reasonable but not absolute assurance against misstatements or losses. The Company's internal control framework covers (i) the setting of objectives, budgets, and targets; (ii) the establishment of regular reporting of financial information, in particular, the tracking of deviations between actual performances and budgets/targets; (iii) the delegation of authority; and (iv) the establishment of clear lines of accountability.

Strategies and objectives of the Company as a whole are determined by the Board. Budgets are prepared annually and reviewed by the Board. In implementing these strategies and achieving these objectives, each Executive Director has specific responsibilities for monitoring the conduct and operations of individual business units within the Company. This includes the review and approval of business strategies and plans, the setting of business-related performance targets as well as the design and implementation of internal controls.

Periodic financial information is provided to the Executive Directors. Variance analysis between actual performances and targets is prepared and documented for discussion at Board meetings, with explanations between actual performances and budgets / targets. This helps the Board and the Company's Management to monitor its business operations and to plan on a prudent and timely basis. Other regular and ad hoc reports are prepared for the Board and ts various committees, to ensure that the Directors are provided with all the requested information in a timely and appropriate manner.

To allow for delegation of authority as well as to enhance segregation of duties and accountability, a clear organizational structure exists detailing different levels of authority and control responsibilities within each business unit of the Company. Certain specific matters are reserved for the Board's decision and cannot be delegated. These include, among others, the approval of annual and interim results, annual budgets, capital structure, declaration of dividends, material acquisitions, disposals and capital expenditures, Board structures and its composition and succession.

In addition, the Board also monitors its internal controls through an internal audit plan. The internal audit team reviews the major operational, financial and risk management controls of the company on a continuing basis, and aims to cover all its major operations on a rational basis. The scope of review and the audit program of the Internal Audit team, formulated and based on a risk-based approach, with focus on areas with relatively higher perceived risks, are approved by the Audit Committee at the end of the preceding financial year in conjunction with the Company's senior management. During its visits, the internal audit team also ensures that appropriate controls are in place and deficiencies or irregularities (if any) are rectified.

The Internal Audit reports directly to the Audit Committee. Accordingly, regular internal audit reports are circulated to the Audit Committee members, the Chief Financial Officer, and the external auditors for review in accordance with the approved Internal Audit Plan.

#### **COMMUNICATION WITH SHAREHOLDERS**

#### **Investor Relations**

#### Communication Channels

In order to develop and maintain a continuing investor's relationship program with its shareholders, the Company has established various channels of communication:

- i) Shareholders can raise any comments on the performance and future directions of the Company with the Directors at the Annual General Meeting.
- ii) The Company distributes the annual results to shareholders.
- iii) The Company's website www.shangproperties.com contains important corporate information, biographical details of Directors and senior management, organizational structure, annual and interim reports, major historical developments with comprehensive and user-friendly information about the Company's shareholders and the investor community to have timely access to updated information.
- iv) Shareholders and members of the investor community are welcome to raise enquiries through the Legal Department, whose contact details are available in the Company's website www.shangproperties.com.

#### General Meetings

- 1. The General Meeting provides a forum for the Board to communicate with the shareholders of the Company
- 2. To facilitate enforcement of shareholders' rights, significant issues are dealt with under separate resolutions at general meetings.
- 3. The 2019 Annual Stockholders' Meeting of the Company was held on June 19, 2019 at the Garden Ballroom, Edsa Shangri-La, Ortigas Center, Mandaluyong City.

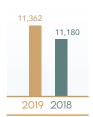
The following resolutions were passed during the meeting:

- 1. Approval of the Minutes of the Annual Meeting of the Stockholders held on June 25, 2018
- 2. Election of Directors for the year 2019-2020
- 3. Appointment of External Auditor

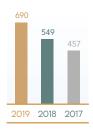
# FINANCIAL HIGHLIGHTS

# TWO-YEAR REVIEW

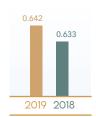
		2019	2018	Change
Turnover	(PhP M)	11,362	11,180	1.6%
Profit attributable to shareholders of the Parent Company	(PhP M)	3,056	3,012	1.4%
Equity attributable to shareholders of the Parent Company	(PhP M)	35,016	32,779	6.8%
Earnings per share attributable to shareholders of the Parent Company	(PhP Ctv)	0.642	0.633	1.4%
Net asset value per share attributable to shareholders of the Parent Company	(PhP)	7.353	6.884	6.8%
Share price at year end	(PhP)	3.200	3.120	2.6%
Price earnings ratio at year end	(Ratio)	4.984	4.927	1.1%
Market capitalisation at year end	(PhP M)	15,245	14,863	-12.8%
Dividend per share	(PhP Ctv)	0.175	0.195	-10.2%
Dividend payout ratio	(%)	27.6%	36.8%	-24.8%
Dividend yield at year end	(%)	5.5%	6.3%	-12.5%
Operating Margin	(%)	51.3%	43.9%	16.8%
Return on equity	(%)	8.7%	9.2%	-5.0%
Return on total financing	(%)	9.3%	10.0%	-6.9%
Interest cover	(Ratio)	17.438	14.470	20.5%
Gross interest as a % of total borrowings	(%)	4.6%	6.0%	-23.4%
Current ratio	(Ratio)	1.1	1.3	-15.4%
Total Debt to Equity	(%)	53.5%	54.2%	-1.3%
Total Bank Loans to Equity	(%)	14.4%	15.3%	-6.2%



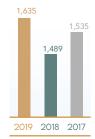
TURNOVER PhP Millions



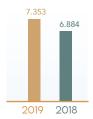
SLPC NET INCOME PhP Millions



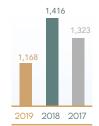
**EARNINGS PER SHARE** PhP Ctv



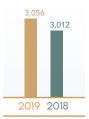
SLPC REVENUE PhP Ctv



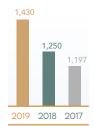
NET ASSET VALUE PER SHARE PhP Millions



TEC NET INCOME PhP Millions



PROFIT ATTRIBUTABLE TO SHAREHOLDERS PhP Millions



TEC GROSS RENTAL INCOME PhP Millions

# STOCK PERFORMANCE & SHAREHOLDER MATTERS

# STOCK BEHAVIOR: QUARTERLY SHARE PRICE

For the past three (3) years, the Company's share prices have traded as follows:

2019	HIGH (PhP Million)	LOW (PhP Million)	2018	HIGH (PhP Million)	LOW (PhP Million)	2017	HIGH (PhP Million)	LOW (PhP Million)
First Quarter	3.20	3.00	First Quarter	3.59	3.01	First Quarter	3.45	3.21
Second Quarter	3.09	2.95	Second Quarter	3.52	3.13	Second Quarter	3.37	3.19
Third Quarter	3.47	2.95	Third Quarter	3.30	3.15	Third Quarter	3.29	3.14
Fourth Quarter	3.33	3.03	Fourth Quarter	3.20	3.04	Fourth Quarter	3.23	3.05

#### **DIVIDENDS**

For the year 2019, the Board of Directors declared total cash dividends of PhP836 million (2018:PhP931 million)

## SHAREHOLDER PROFILE

As of December 31, 2019, the Company had 5,200 stockholders. Common shares outstanding as of said date are 4,764,058,982. The Company's stockholders owning at least 5% or more of the common shares outstanding as of December 31, 2019 are:

RANK	SHAREHOLDERS	NO. OF SHARES	PERCENTAGE %
1	TRAVEL AIM INVESTMENT B.V.*	1,648,869,372	34.61
2	PCD NOMINEE CORPORATION (FILIPINO)	1,006,840,247	21.31

<sup>\*</sup>This company is a wholly owned subsidiary of Kerry Properties Limited

# 10-YEAR FINANCIAL SUMMARY

Profit and loss account         PhP '000         PhP '000         PhP '000         PhP '000         PhP '000           Turnover         11,361,826         11,180,487         13,770,215         10,343,021           Operating profit         4,031,015         3,721,551         4,939,001         4,021,601           Interest expense & bank charges         (272,339)         (358,742)         (331,963)         (273,494)           Share in profit (loss) of associated companies         101,237         -         (4,100)         (4,313)           Profit before taxation         4,476,579         4,832,376         5,684,611         4,679,868
Turnover       11,361,826       11,180,487       13,770,215       10,343,021         Operating profit       4,031,015       3,721,551       4,939,001       4,021,601         Interest expense & bank charges       (272,339)       (358,742)       (331,963)       (273,494)         Share in profit (loss) of associated companies       101,237       -       (4,100)       (4,313)         Profit before taxation       4,476,579       4,832,376       5,684,611       4,679,868
Operating profit       4,031,015       3,721,551       4,939,001       4,021,601         Interest expense & bank charges       (272,339)       (358,742)       (331,963)       (273,494)         Share in profit (loss) of associated companies       101,237       -       (4,100)       (4,313)         Profit before taxation       4,476,579       4,832,376       5,684,611       4,679,868
Interest expense & bank charges (272,339) (358,742) (331,963) (273,494)  Share in profit (loss) of associated companies 101,237 - (4,100) (4,313)  Profit before taxation 4,476,579 4,832,376 5,684,611 4,679,868
Share in profit (loss) of associated companies       101,237       - (4,100)       (4,313)         Profit before taxation       4,476,579       4,832,376       5,684,611       4,679,868
Profit before taxation 4,476,579 4,832,376 5,684,611 4,679,868
Taxation (1,054,810) (1,271,762) (1,464,529) (1,204,218)
Profit after taxation 3,421,769 3,560,614 4,220,082 3,475,650
Minority interests (365,767) (548,286) (873,916) (569,726)
Profit attributable to shareholders 3,056,002 3,012,328 3,346,166 2,905,925
Assets and liabilities
Fixed assets 47,202,480 46,761,767 42,283,683 39,702,962
Associated company 2,121,615 1,000,389 501,936 495,636
Other assets 1,943,490 1,543,107 1,123,249 150,264
Net current assets/(liabilities) 1,183,719 2,593,483 8,453,323 12,039,829
Total assets, net of current liabilities 52,451,305 51,898,746 52,362,191 52,388,691
Long term liabilities (11,181,166) (12,832,387) (15,837,950) (19,050,222)
Total equity 41,270,139 39,066,359 36,524,241 33,338,468

2015	2014	2013	2012	2011	2010
			as restated		
PhP '000	PhP '000	PhP '000	PhP '000	PhP '000	PhP '000
7,391,108	6,449,539	6,330,609	4,599,906	2,477,439	2,420,693
4,005,484	3,188,806	2,666,310	1,768,040	958,432	1,488,696
(201,559)	(227,066)	(184,962)	(172,279)	(213,337)	(261,892)
70,658	(9,693)	(4,674)	29,491	19,967	84,238
4,767,165	4,114,696	3,054,530	2,431,575	1,876,787	1,687,860
(1,189,139)	(995,502)	(751,430)	(536,193)	(514,785)	(402,266)
3,578,027	3,119,194	2,303,100	1,895,382	1,362,002	1,285,594
(728,214)	(383,818)	(291,827)	(248,905)	(305,286)	(284,891)
2,849,813	2,735,376	2,011,273	1,646,477	1,056,716	1,000,703
41,890,783	38,389,161	27,295,207	25,506,150	24,961,947	24,217,513
491,948	410,790	2,441,310	2,514,446	2,480,863	1,834,046
63,411	68,494	37,286	42,956	29,575	417,677
9,452,538	9,612,668	5,257,295	4,563,719	4,061,180	4,897,750
51,898,681	48,481,112	35,031,099	32,627,270	31,533,564	31,366,986
(19,597,098)	(20,696,779)	(10,240,307)	(9,474,933)	(9,743,185)	(9,915,737)
32,301,583	27,784,333	24,790,791	23,152,338	21,790,379	21,451,248

# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENT

SECURITIES AND EXCHANGE COMMISSION SEC Building, EDSA Greenhills Mandaluyong City

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

The management of SHANG PROPERTIES INC. is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud of error.

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

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

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

Isla Lipana ad Co., the independent auditors appointed by the stockholders for the period December 31, 2019 and 2018, respectively, have audited the consolidated financial statements of the company in accordance with Philippine Standards on Auditing, and their reports to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

Edward Kuok Khoon Loong Chairman of the Board

1 tilles

Wilfred Shan Chen Woo

Executive Assistant to Chairman of the Board

Karlo Marco P Estavillo

Treasurer/Chief Finance Officer and Chief Operating Officer

# **AUDIT COMMITTEE REPORT**

For the year ended 31 December 2019

The Audit Committee of The Board has been established since 2002 is composed of three (3) Non-executive Directors, of whom two (2) are independent directors. The chair of the Audit Committee is an independent director.

The Audit Committee operates pursuant to the approved Audit Committee Charter. In general, the Audit Committee is responsible for assisting the Board in its responsibilities in monitoring the integrity of the Group's financial reporting process, the financial statements and reports of the Company, the compliance with legal and regulatory requirements, the external auditor's qualifications and independence, and the performance of the Group's internal audit function and external auditor.

In performing its responsibilities, set out below is a summary of the work performed by the Audit Committee during the financial year ended December 31, 2019.

- (i) The Audit Committee reviewed the draft annual and interim financial statements and the draft results announcements of the Company, focusing on main areas of judgment, consistency of and changes in accounting policies and adequacy of information disclosure prior to recommending them to the Board for approval.
- (ii) The Audit Committee reviewed, in conjunction with the external auditor, the developments of accounting standards and assessed their potential impacts on the Group's financial statements.
- (iii) The Audit Committee assessed the independence of the Company's external auditor, prior to formally engaging the external auditor to carry out the audit for the Company's financial statements for the year ended December 31, 2019.
- (iv) Prior to the actual commencement of the audit, the Audit Committee discussed the proposed scope of work and approach of the audit with the external auditor. Upon completion of the audit, the Audit Committee reviewed the results of the external audit, and discussed with the external auditor on any significant findings and audit issues.
- (v) The Audit Committee recommended to the Board regarding the appointment and remuneration of the external auditor.

- (vi) The Audit Committee reviewed and approved the internal audit plan, reviewed and discussed the significant and material audit issues from the internal audit reports with the internal audit team and the Group's senior management.
- (vii) The Audit Committee reviewed the independence of the internal audit function and the level of support and cooperation given by the Group's management to the internal audit team, as well as the resources of the internal audit team when undertaking its duties and responsibilities.
- (viii) The Audit Committee reviewed the adequacy and effectiveness of the Group's systems of internal controls, through oversight on the work undertaken by the Group's internal and external auditor, and written representations by the senior management of each of the Group's business divisions and discussions with the Board.

During the financial year ended December 31, 2019, the Audit Committee met four (4) times. The Audit Committee also conducted meetings with the Group's senior management, the external auditor and the internal audit team from time to time. Minutes of the Audit Committee Meetings are documented and circulated to the Board for information. The Audit Committee also reports and presents its findings and makes recommendations for consideration and discussion at Board meetings.

The Audit Committee reviewed the audited financial statements of the Group for the year ended December 31, 2019 prior to recommending them to the Board for approval.

Members of the Audit Committee:

Mr. Maximo G. Licauco III Chairman

Mr. Benjamin I. Ramos Member

Ms. Cynthia R. Del Castillo Member



# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders of Shang Properties, Inc. and Subsidiaries Administration Office, Shangri-La Plaza Mall EDSA corner Shaw Boulevard Mandaluyong City

#### Our Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Shang Properties, Inc. (the "Parent Company") and its subsidiaries (together, the "Group") as at December 31, 2019 and 2018, and the consolidated financial performance and consolidated cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRS).

#### What we have audited

The consolidated financial statements of the Group comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of total comprehensive income for each of the three years in the period ended December 31, 2019;
- the consolidated statements of changes in equity for each of the three years in the period ended December 31, 2019;
- the consolidated statements of cash flows for each of the three years in the period ended December 31, 2019; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

#### Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Independence

We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.





To the Board of Directors and Shareholders of Shang Properties, Inc. and Subsidiaries Page 2

#### Our Audit Approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

#### Key audit matters

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

Key audit matters identified in our audit are summarized as follows:

- Valuation of investment properties;
- Revenue recognition on condominium sales based on percentage of completion (POC); and
- Impairment assessment of goodwill.



Independent Auditor's Report To the Board of Directors and Shareholders of Shang Properties, Inc. and Subsidiaries Page 3

#### **Key Audit Matters**

#### How our Audit Addressed the Key Audit Matters

#### a) Valuation of investment properties

Refer to Note 10 to the consolidated financial statements for the details of the investment properties and Note 33.1 for discussion on critical accounting estimates and assumptions.

As at December 31, 2019, total investment properties, carried at fair value, amounts to P32.90 billion which accounts for about 52% of the total consolidated assets of the Group. The determination of fair values by an appraiser involves significant estimation using assumptions such as property prices for similar market listing in the area, occupancy rate, rental rate and discount rate. An annual fair value assessment is performed based on the requirements of PFRS 13, Fair Value Measurement, and Philippine Accounting Standards (PAS) 40, Investment Property.

In 2019, the Group recognized a fair value gain amounting to P276.70 million. This is based on the report prepared by an independent appraiser using the market comparison approach and direct income capitalization approach for the Group's parcels of land and buildings held for office and retail lease, and other parcels of land held for capital appreciation. The market comparison approach considers the sales of similar or substitute properties and related market data, and establishes a value estimate by a process involving comparison. The direct income capitalization approach considers income and expense data relating to the property being valued and estimates value through a capitalization process. Capitalization relates income (usually a net income figure) and a defined value type by converting an income amount into a value estimate.

We have addressed the matter by obtaining the appraisal reports and reviewing the appropriateness of the method and reasonableness of the significant assumptions and estimates used in calculating the fair value as supported by our valuation expert. In particular, comfort over the reliability of the appraiser reports was obtained through independent verification of certain fair value assumptions and inputs specifically:

- similar market listing in the area by comparing to records of recent sales and offerings of similar land;
- occupancy rate by agreeing to management's records and historical actual information;
- expense-revenue ratio by comparing to the historical experience of the Group's leasing operations;
- rental rate by comparing to prevailing market rents to leasing transactions of comparable properties; and
- discount rate by comparing to published market yields.

We evaluated competence, capabilities and objectivity of the independent appraiser engaged by the Group by reviewing its profile, licenses and client portfolio.

We did not note any significant issues in our testing of management's estimate of fair value of investment properties.



How our Audit Addressed the Key Audit Matters

We did not note any significant issues in our testing of critical accounting estimate on revenue

recognition on condominium sales.

Independent Auditor's Report To the Board of Directors and Shareholders of Shang Properties, Inc. and Subsidiaries Page 4

**Key Audit Matters** 

#### Revenue recognition on condominium sales based on Percentage of Completion (POC) as a measure of progress Refer to Note 33.1 to the consolidated financial We have addressed the matter by understanding statements for the discussion on critical the process employed by the Group in estimating accounting estimates and assumptions. the actual physical completion of the condominium project as performed by The revenue arising from condominium sales for independent quantity surveyors. We have the year ended December 31, 2019 amounts to evaluated the competence, capabilities and P4.43 billion which accounts for about 39% of objectivity of independent quantity surveyors the consolidated total revenues. It is therefore, engaged by the Group by reviewing their profile, deemed material to the consolidated financial professional licenses and client portfolio. statements. We have examined detailed accomplishment Revenue from sale of condominium is recognized reports that provide information and analysis over time using the output method in accordance about the status of the project. We have also with the guidance set in Philippine visited physically the projects and performed onsite observations and interviews with project Interpretations Committee Questions and Answers (PIC Q&A) 2016-04. Under the output engineers. Furthermore, as part of our analytical method, revenue is calculated with reference to procedures, we compared PoC reported by the percentage of completion (PoC) of the surveyors with PoC derived based on total actual project. In the case of the Group, PoC is costs incurred-to-date in relation to the total determined based on the actual physical estimated project cost. We inspected relevant completion of the project. contracts, contractors' billings, invoices, and other supporting documents to verify the reasonableness of the recorded actual costs.



Independent Auditor's Report To the Board of Directors and Shareholders of Shang Properties, Inc. and Subsidiaries Page 5

#### **Key Audit Matters**

#### How our Audit Addressed the Key Audit Matters

#### c) Impairment assessment of goodwill

Refer to Note 14 to the consolidated financial statements for the details of the goodwill and Note 33.2 for discussion on critical accounting judgments.

As at December 31, 2019, the Group's goodwill attributable to Shang Global City Properties, Inc. (the Cash Generating Unit or CGU) amounted to P269.87 million. Under PAS 36, Impairment of Assets, the Group is required to annually test the amount of goodwill for impairment. In addition, management's assessment process is complex, and requires significant estimates and judgment. The most significant judgments relate to the terminal growth rate and discount rate applied together with the assumptions supporting the underlying forecast cash flows, in particular revenue growth rates and operating margins.

We checked the reasonableness of management's future cash flow forecasts and the underlying assumptions based on the historical performance of the business, industry-specific reports and the macro economic outlook as supported by our valuation expert. We assessed the projected cash flow against the approved budgets of the CGU.

We reviewed management's basis for identifying the CGU where goodwill is allocated. We validated that the calculation of the carrying amount of the CGU is consistent with the requirements of PAS 36.

We also tested management's assumptions in relation to the:

- terminal growth rate by comparing to the economic and industry forecasts; and
- pre-tax discount rate by assessing the cost of capital for the CGU and comparable businesses.

We found the assumptions consistent and in line with our expectations.

We considered the adequacy of management's sensitivity calculations. We determined that the calculations were most sensitive to assumptions for terminal growth rate and the pre-tax discount rate as disclosed in Note 33.2 to the consolidated financial statements.





Independent Auditor's Report To the Board of Directors and Shareholders of Shang Properties, Inc. and Subsidiaries Page 6

#### Other Information

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

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

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing the ability of each entity within the Group 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 entity or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA 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 consolidated financial statements.



Independent Auditor's Report To the Board of Directors and Shareholders of Shang Properties, Inc. and Subsidiaries Page 7

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

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

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.

# pwc

# Isla Lipana & Co.

Independent Auditor's Report To the Board of Directors and Shareholders of Shang Properties, Inc. and Subsidiaries Page 8

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

The engagement partner on the audit resulting in this independent auditor's report is Imelda Ronnie de Guzman-Castro.

Isla Lipana & Co.

Imelda Ronnie de Guzman-Castro

Partner

CPA Cert. No. 89352

P.T.R. No. 0011287; issued on January 7, 2020 at Makati City

Louede Amie G. Cantra

SEC A.N. (individual) as general auditors 1769-A, Category A; effective until September 2, 2022

SEC A.N. (firm) as general auditors 0009-FR-5, Category A; effective until June 20, 2021

T.I.N. 152-015-095

BIR A.N. 08-000745-44-2018; issued on October 19, 2018; effective until October 18, 2021

BOA/PRC Reg. No. 0142, effective until September 30, 2020

Makati City April 1, 2020

Consolidated Statements of Financial Position As at December 31, 2019 and 2018 (All amounts in Philippine Peso)

	Notes	2019	2018
ASSETS			
Current assets			
Cash and cash equivalents	3	2,640,088,900	2,432,097,332
Financial assets at fair value through profit or loss	4	36,278,844	41,424,316
Trade and other receivables, net	5	5,219,296,083	3,284,010,542
Properties held for sale	6	2,876,245,361	3,677,577,353
Prepaid taxes and other current assets	7	1,314,018,515	1,515,512,255
Total current assets		12,085,927,703	10,950,621,79
Non-current assets		0.404.045.470	
Investments in and advances to an associate and a joint venture	8	2,121,615,473	1,000,388,98
Investment properties	10	32,903,376,768	32,511,076,048
Real estate development projects	11	1,487,613,661	495,950,08
Financial assets at fair value through other comprehensive	12	902 669 406	782,395,996
income, net Property and equipment, net	13	803,668,496 12,811,489,580	13,754,741,36
Goodwill	14	269,870,864	269,870,864
Deferred income tax assets, net	26	226,921,795	122,428,89
Other non-current assets	15	643,028,724	368,410,88
Total non-current assets	- 10	51,267,585,361	49,305,263,12
Total assets		63,353,513,064	60,255,884,92
		00,000,010,001	00 200 00   02
LIABILITIES AND EQUIT	<u>ry</u>		
Current liabilities			
Accounts payable and other current liabilities	16	6,169,431,637	5,391,793,72
Current portion of:		440.047.070	200 200 50
Installment payable	6	443,917,972	390,280,53
Bank loans	17	3,553,333,333	1,833,333,33
Deposits from tenants	18	391,914,057	503,462,22
Deferred lease income	18	45,303,980	33,518,98
Income tax payable	26 20	250,763,007	162,066,42
Dividends payable	20	47,544,516	42,683,65
Total current liabilities Non-current liabilities		10,902,208,502	8,357,138,86
	6		150 001 20
Installment payable, net of current portion Accrued employee benefits	25	55,145,025	150,881,202 57,052,803
Bank loans, net of current portion	17	2,374,627,758	4,149,694,158
Deferred income tax liabilities, net	26	7.865.210.146	7,655,864,029
Advance rentals, net of current portion	30	112,000,606	187,029,72
Deposits from tenants, net of current portion	18	726,830,874	590,521,26
Deferred lease income, net of current portion	18	47,351,275	41,343,64
Total non-current liabilities	- 10	11,181,165,684	12,832,386,82
Total liabilities		22,083,374,186	21,189,525,69
Equity		22,000,074,100	21,100,020,00
Share capital	19	4,764,058,982	4,764,058,982
Share premium	19	834,439,607	834,439,60
Treasury shares	19	(6,850,064)	(6,850,06
Equity reserves	9	(141,132,606)	(141,132,60
Other comprehensive income		236,182,784	219,970,989
			27,108,948,85
	19	Z3.3Z3.Z34. 10U	
Retained earnings	19	29,329,234,160 35.015.932.863	
Retained earnings Total equity attributable to shareholders of the Parent Company	19 9	35,015,932,863	32,779,435,75
Retained earnings			

The notes on pages 1 to 79 are integral part of these consolidated financial statements.

Consolidated Statements of Total Comprehensive Income For each of the three years in the period ended December 31, 2019 (All amounts in Philippine Peso)

	Notes	2019	2018	2017
Revenues				
Condominium sales	5	4,428,339,649	4,991,248,279	8,192,197,299
Rental and cinema	10	3,353,266,040	3,017,331,251	2,981,321,414
Hotel operation		3,580,220,504	3,171,907,725	2,596,696,685
		11,361,826,193	11,180,487,255	13,770,215,398
Cost of sales and services		2 606 020 201	2 000 501 222	4 700 000 000
Condominium sales		2,696,938,381	3,000,561,223	4,726,826,668
Rental and cinema Hotel operation		169,393,067 3,212,676,342	246,411,337 3,023,783,595	222,938,433 2,658,648,660
riotei operation	21	6,079,007,790	6,270,756,155	7,608,413,761
Gross income		5,282,818,403	4.909.731.100	6,161,801,637
Operating expenses		0,202,010,400	4,505,751,100	0,101,001,037
Staff costs	22	476,405,566	438,271,316	442,405,884
Taxes and licenses	23	209,219,439	203,394,325	188,172,168
Depreciation and amortization	13	33,625,702	23,032,736	20,456,404
Insurance		17,695,659	3,351,421	994,078
Other general and administrative	23	514,856,663	520,129,987	570,771,981
•		1,251,803,029	1,188,179,785	1,222,800,515
Other income				
Gain on fair value adjustment of investment				
properties, net	10	276,697,387	879,994,277	660,167,229
Interest income	24	217,586,055	190,828,895	231,052,079
Foreign exchange gains (losses), net	3	(7,757,080)	24,186,733	25,130,010
Other income, net	24	130,139,136	374,556,513	165,323,609
		616,665,498	1,469,566,418	1,081,672,927
Share in net income (losses) of associates and a				
joint venture	. 8	101,237,114	(050 544 500)	(4,099,987)
Interest expense and bank charges	24	(272,338,911)	(358,741,709)	(331,962,863)
Income before income tax	20	4,476,579,075	4,832,376,024	5,684,611,199
Provision for income tax	26	(1,054,810,382)	(1,271,761,567)	(1,464,529,236) 4,220,081,963
Net income for the year Net income attributable to:		3,421,700,093	3,300,014,437	4,220,001,903
Shareholders of the Parent Company		3,056,001,858	3,012,328,190	3,346,165,957
Non-controlling interests	9	365,766,835	548,286,267	873,916,006
Non-controlling interests		3,421,768,693	3,560,614,457	4,220,081,963
Basic and diluted earnings per share attributable		5,421,700,055	3,300,014,437	4,220,001,000
to shareholders of the Parent Company	27	0.642	0.633	0.703
Other comprehensive income (loss)		0.0.2	0.000	000
Items that will be subsequently reclassified to				
profit or loss				
Increase in fair value of available-for-sale				
financial assets, net of tax	12	-	-	4,620,000
Translation adjustments		(932,813)	(339,985)	(57,256)
Items that will not be subsequently reclassified to				
profit or loss				
Increase in fair value of equity investments at				
fair value through other comprehensive income,				
net of tax	12	19,943,650	7,760,500	-
Remeasurement gain (loss) on retirement benefit	0.5	(0.045.005)	4 0 4 5 0 5 0	(40.474.004)
obligation, net of tax	25	(2,815,335)	1,845,050	(13,474,804)
T-t-1		16,195,502	9,265,565	(8,912,060)
Total comprehensive income for the year		3,437,964,195	3,569,880,022	4,211,169,903
Total comprehensive income attributable to:		0.070.040.050	0.040.700.407	0.007.400.004
		3,072,213,653	3,018,703,487	3,337,180,321
Shareholders of the Parent Company			, , , , , , , , , , , , , , , , , , , ,	, , , , , , , , , , , , , , , , , , , ,
Non-controlling interests	9	365,750,542 3,437,964,195	551,176,535 3,569,880,022	873,989,582 4,211,169,903

The notes on pages 1 to 79 are integral part of these consolidated financial statements.

Consolidated Statements of Changes in Equity For each of the three years in the period ended December 31, 2019 (All amounts in Philippine Peso)

						Shareholders of the Parent Company	the Parent Cor	npany			
					Other compre	Other comprehensive income					
				Cumulative changes in fair value of		Remeasurement loss on				N	
	Share capital (Note 19)	Share premium (Note 19)	Treasury shares (Note 19)	assets at FVOCI (Note 12)	Cumulative translation adjustments	defined benefit plan (Note 25)	Total	Equity reserves (Note 9)	Retained earnings (Note 19)	controlling interests (Note 9)	Total
January 1, 2017	4,764,058,982	834,439,607	(6,850,064)	10,345,000	(215,183)	(11,012,849)	(883,032)	(141,132,606)	22,466,858,146	5,421,977,200	33,338,468,233
sive income											
e for the year	•	•	•	•	•	•	•	'	3,346,165,957	873,916,006	4,220,081,963
sprehensive income (loss)				4,620,000	(57,256)	(13,474,804)	(8,912,060)				(8,912,060)
prehensive income (loss)	•	•	•	4,620,000	(57,256)	(13,474,804)	(8,912,060)	'	3,346,165,957	873,916,006	4,211,169,903
with owners											
fends declared (Note 20)			•				•	•	(785,716,856)	(239,680,000)	(239,680,000) (1,025,396,856)
December 31, 2017, as											
y presented	4,764,058,982	834,439,607	(6,850,064)	14,965,000	(272,439)	(24,487,653)	(9,795,092)	(141,132,606)	25,027,307,247	6,056,213,206	36,524,241,280
ccounting policy	'	'	•	220,500,516	•		220,500,516	'	'	'	220,500,516
January 1, 2018, as restated	4,764,058,982	834,439,607	(6,850,064)	235,465,516	(272,439)	(24,487,653)	210,705,424	(141,132,606)	25,027,307,247	6,056,213,206	36,744,741,796
sive income											
e for the year		•	•	•	•		•	•	3,012,328,190	548,286,267	3,560,614,457
iprehensive income (loss)				7,760,500	(339,985)	1,845,050	9,265,565				9,265,565
prehensive income (loss)	•	•	•	7,760,500	(339,985)	1,845,050	9,265,565	•	3,012,328,190	548,286,267	3,569,880,022
with owners											
lends declared (Note 20)	•		•	•			•	•	(930,686,586)	(317,576,000)	(1,248,262,586)
December 31, 2018	4,764,058,982	834,439,607	(6,850,064)	243,226,016	(612,424)	(22,642,603)	219,970,989	(141,132,606)	27,108,948,851	6,286,923,473	39,066,359,232
sive income											
e for the year		•	•	•			•	•	3,056,001,858	365,766,835	3,421,768,693
sprehensive income (loss)				19,943,650	(932,813)	(2,799,042)	16,211,795			(16,293)	16,195,502
prehensive income (loss)				19,943,650	(932,813)	(2,799,042)	16,211,795		3,056,001,858	365,750,542	3,437,964,195
with owners											
fends declared (Note 20)			•	•	•		•	•	(835,716,549)	(398,468,000)	(1,234,184,549)
December 31, 2019	4,764,058,982	834,439,607	(6,850,064)	263,169,666	(1,545,237)	(25,441,645)	236,182,784	(141,132,606)	29,329,234,160	6,254,206,015	41,270,138,878

The notes on pages 1 to 79 are integral part of these consolidated financial statements.

#### Consolidated Statements of Cash Flows For each of the three years in the period ended December 31, 2019 (All amounts in Philippine Peso)

	Notes	2019	2018	2017
Cash flows from operating activities Income before provision for income tax		4,476,579,075	4,832,376,024	5.684.611.199
Adjustments for:		4,476,379,073	4,032,370,024	5,004,011,199
Depreciation and amortization	13	1,115,107,861	1,041,599,497	898,032,690
Interest expense	24	271,398,458	357,899,249	330,986,305
Retirement benefit expense	25	37,765,035	38,161,019	50,603,555
(Gain) loss on fair value adjustment of	20	07,700,000	00,101,010	00,000,000
financial assets at fair value through profit or loss	4, 24	5,145,472	4,545,027	(14,247,505
Provision for doubtful accounts	5, 23	170,000	8,468,256	5,178,302
Write-off of available-for-sale financial assets	0, 20		-	2,000,000
Loss on disposal of financial assets at fair value				_,,,,,,,,
through profit or loss	4	-	-	875,663
Unrealized foreign exchange gain (loss)	3	4,958,704	(16,419,512)	(2,196,83
Loss (gain) on sale of property and equipment	24	(1,050,728)	(206,643,583)	986,953
Amortization of deferred lease income	18	(37,686,644)	(30,434,852)	(33,787,663
Dividend income	24	(55,541,739)	(48,440,301)	(63,880,748
Share in net losses (gains) of associates and a joint venture	8	(101,237,114)		4,099,987
Interest income	24	(217,586,055)	(190,828,895)	(231,052,079
Gain on fair value adjustment of investment properties	10	(276,697,387)	(879,994,277)	(660,167,22
Operating income before working capital changes		5,221,324,938	4,910,287,652	5,972,042,597
Changes in working capital:		-,,,	.,,,	.,,,
Trade and other receivables		(1,937,313,040)	(52,262,791)	(616,593,302
Properties held for sale		800,401,309	2,557,995,862	4,424,893,843
Prepaid taxes and other current assets		60,990,622	(272,776,044)	658,487,273
Real estate development projects		(45,181,174)	(3,096,726,897)	(2,317,743,014
Other non-current assets		(90,602,627)	21,641,516	15,528,384
Accounts payable and other current liabilities		516,712,135	(752,634,597)	(96,161,14)
Accrued employee benefits		51,116		(12,935,289
Installment payable		(97,243,761)	(95,349,464)	(133,759,476
Advance rentals		217,340,128	19,539,880	52,455,750
Deposits from tenants		32,156,643	10,854,586	35,006,572
Net cash generated from operations		4,678,636,289	3,250,569,703	7,981,222,194
Income tax paid		(722,631,847)	(440,320,188)	(719,460,846
Interest received		218,510,740	53,446,209	68,984,880
Contributions paid to retirement plan	25	(52,653,236)	(8,409,257)	(20,716,86)
Retirement benefits paid directly by the Group	25	(3,617,203)	(20,215,578)	(37,530,039
Net cash provided by operating activities		4,118,244,743	2,835,070,889	7,272,499,32
Cash flows from investing activities				
Additions to:				
Financial assets at fair value through other comprehensive				
income	12	1,966,500	-	
Available-for-sale financial assets	12		-	(299,900
Property and equipment	13	(125,092,093)	(75,080,688)	(42,308,029
Deposit for a future project	15	(171,705,000)	(250,295,000)	
Investment in and advances to a joint venture	. 8	(1,019,989,374)	(1,000,000,000)	(10,400,00
Investment properties	10	(1,109,209,440)	(489,886,876)	(467,302,58
Dividends received	24	55,541,739	48,440,301	63,880,74
Proceeds from sale of property and equipment	24	2,341,134	269,640,000	779,76
Net cash used in investing activities		(2,366,146,534)	(1,497,182,263)	(455,649,99
Cash flows from financing activities				
Payments of:				
Loan principal	17	(3,208,333,333)	,	(4,689,583,333
Interest	17	(246,490,921)	(322,790,651)	(318,919,689
Cash dividends paid to:				
Shareholders	20	(830,855,683)	(925,518,202)	(781,236,767
Non-controlling shareholders of subsidiaries	9	(398,468,000)	(317,576,000)	(239,680,000
Proceeds from loan availment, net of debt issue costs	17	3,145,000,000	1,300,000,000	
Net cash used in financing activities		(1,539,147,937)	(3,952,968,186)	(6,029,419,78
Net increase (decrease) in cash and cash equivalents				
for the year		212,950,272	(2,615,079,560)	787,429,535
Cash and cash equivalents at January 1	3	2,432,097,332	5,030,757,380	4,241,131,012
			40 440 540	
Effects of exchange rate changes on cash and cash equivalents  Cash and cash equivalents at December 31	3	(4,958,704) 2,640,088,900	16,419,512 2,432,097,332	2,196,833 5,030,757,380

The notes on pages 1 to 79 are integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements As at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 (All amounts are shown in Philippine Peso unless otherwise stated)

#### Note 1 - General information

Shang Properties, Inc. (the "Parent Company"), a corporation duly organized and existing in the Philippines, was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on October 21, 1987 to acquire, own, develop, subdivide, sell, mortgage, exchange, lease or hold for investment, real estate of all kinds.

The Parent Company's registered office address, which is also its principal place of business, is at Administration Office, Shangri-La Plaza Mall, EDSA corner Shaw Boulevard, Mandaluyong City.

The Parent Company and its subsidiaries' (together, the "Group") businesses include property investment and development, hotel operation, real estate management, leasing, mall and carpark operations, and other supplementary businesses.

The consolidated financial statements have been approved and authorized for issue in accordance with a resolution of the Board of Directors on April 1, 2020.

#### Note 2 - Segment information

The Group's operating businesses are organized and managed according to the nature of the products and services marketed. Each segment represents a strategic business unit that offers different products and serves different markets. The Group has operations only in the Philippines. The Group derives revenues from three (3) main segments as follows:

#### (a) Property development

This business segment pertains to the sale of condominium units.

Shang Properties Realty Corporation ("SPRC") is the developer of The Shang Grand Tower Project (TSGT), located in Makati City, The St. Francis Shangri-La Place Project (TSFSP) and the One Shangri-La Place Project (OSP), both located in Mandaluyong City.

Shang Property Developers, Inc. ("SPDI") is the developer of Shang Salcedo Place Project (SSP), located in Makati City.

The Rise Development Company Inc. ("TRDCI") is the developer of The Rise Makati Project, located in Makati City.

Shang Wack Wack Properties, Inc. ("SWWPI") is the developer of Shang Residences at Wack Wack Project, located in Mandaluyong City.

#### (b) Hotel operation

This business segment pertains to the operations of Shangri-La at the Fort's hotel and residences. Shang Global City Properties, Inc. ("SGCPI") is the developer of Shangri-La at the Fort Project, located in Taguig City. SGCPI's hotel and restaurant operations started commercial operations on March 1, 2016.

#### (c) Leasing

This business segment pertains to the rental operations of the Shangri-La Plaza Mall, The Enterprise Center ("TEC") and their related carpark operations as operated by Shangri-La Plaza Corporation ("SLPC"), KSA Realty Corporation ("KSA") and SPI Parking Services, Inc. ("SPSI"), respectively. It also includes rental of a portion of the Parent Company's land to EDSA Shangri-La Hotel and Resort, Inc. ("ESHRI") and cinema operations of Shangri-La Plaza Mall.

Other business segments pertain to property management services and operations of real estate entities and other subsidiaries.

Except for the rental revenue from ESHRI, all revenues come from transactions with third parties. There are no revenues derived from a single external customer above 10% of total revenue in 2019, 2018 and 2017. There is no need to present reconciliation since measure of segment assets, liabilities and results of operations are consistent with those of the consolidated financial statements.

All revenues are from domestic entities incorporated in the Philippines, hence, the Group did not present geographical information required by PFRS 8, *Operating Segments*.

There are no changes in the Group's reportable segments and related strategies and policies in 2019, 2018, and 2017.

The segment assets, liabilities and results of operations of the reportable segments of the Group as at and for the year ended December 31, 2019 are as follows:

	Property development	Hotel operation	Leasing	Others	Total segments	Eliminations	Consolidated
Revenues							
Condominium sales	4,426,678,935		1,660,714		4,428,339,649		4,428,339,649
Rental and cinema			3,597,477,911		3,597,477,911	(244,211,871)	3,353,266,040
Hotel operation		3,580,220,504			3,580,220,504		3,580,220,504
Cost of sales and services							
Condominium sales	(2,694,470,881)		(2,467,500)		(2,696,938,381)		(2,696,938,381)
Rental and cinema			(164,670,882)		(164,670,882)	(4,722,185)	(169,393,067)
Hotel operation		(3,212,676,342)	•		(3,212,676,342)		(3,212,676,342)
Gross income	1,732,208,054	367,544,162	3,432,000,243		5,531,752,459	(248,934,056)	5,282,818,403
Operating expenses							
Staff costs	(137,433,543)	(6.520,462)	(489,159,470)	(49,631,195)	(682,744,670)	206,339,104	(476,405,566)
Taxes and licenses	(46,755,530)	(45,543,319)	(115,611,135)	(1,309,455)	(209,219,439)		(209,219,439)
Depreciation and amortization	(2,325,326)	(7,101,422)	(225,042,038)	(450,120)	(234,918,906)	201,293,204	(33,625,702)
Insurance	(199,887)	(16, 168, 863)	(1,312,912)	(13,997)	(17,695,659)		(17,695,659)
Other general and administrative	(110,798,398)	(224,431,411)	(425,943,743)	(2,617,167)	(763,790,719)	248,934,056	(514,856,663)
Other income (expense)							
Gain (loss) on fair value adjustment of investment							
properties	(422,968,694)		699,666,081		276,697,387		276,697,387
Interest income	180,907,639	7,764,188	27,938,924	975,304	217,586,055		217,586,055
Foreign exchange gains (losses), net	(3,602,953)	(1,588,543)	(2,549,751)	67,387,434	59,646,187	(67,403,267)	(7,757,080)
Other income, net	52,844,484	1,034,530	1,944,515,823	619,555,386	2,617,950,223	(2,487,811,087)	130,139,136
Share in net gains of associates and a joint venture			101,237,114		101,237,114		101,237,114
Interest expense and bank charges	(409,668)	(130,105,616)	(141,818,458)	(5,169)	(272,338,911)		(272,338,911)
Income before income tax	1,241,466,178	(55,116,756)	4,803,920,678	633,891,021	6,624,161,121	(2,147,582,046)	4,476,579,075
Provision for income tax	(408,670,623)	(25,143,078)	(848,064,622)	(5,487,532)	(1,287,365,855)	232,555,473	(1,054,810,382)
Net income for the year	832,795,555	(80,259,834)	3,955,856,056	628,403,489	5,336,795,266	(1,915,026,573)	3,421,768,693
Segment assets	15,488,335,021	10,683,758,292	44,877,200,970	9,579,217,281	80,628,511,564	(19,396,613,973)	61,231,897,591
Associate companies (Note 8)				2,121,615,473	2,121,615,473		2,121,615,473
Total assets	15,488,335,021	10,683,758,292	44,877,200,970	11,700,832,754	82,750,127,037	(19,396,613,973)	63,353,513,064
Segment liabilities	9,413,391,161	2,877,048,916	15,144,127,410	7,802,821,483	35,237,388,970	(13,154,014,784)	22,083,374,186
Capital expenditures for the year (Notes 10 and 13)	8.835.831	87.584.563	144,081,584	193.448	240.695.426		240.695.426

The segment assets, liabilities and results of operations of the reportable segments of the Group as at and for the year ended December 31, 2018 are as follows:

	Property development	Hotel operation	Leasing	Others	Total segments	Eliminations	Consolidated
Revenues							
Condominium sales	4,207,725,948	783,522,331			4,991,248,279		4,991,248,279
Rental and cinema	•	103,587,139	3,145,593,103		3,249,180,242	(231,848,991)	3,017,331,251
Hotel operation		3,171,907,725			3,171,907,725		3,171,907,725
Cost of sales and services							
Condominium sales	(2,693,212,800)	(307,348,423)			(3,000,561,223)		(3,000,561,223)
Rental and cinema			(241,988,954)		(241,988,954)	(4,422,383)	(246,411,337)
Hotel operation		(3,023,783,595)			(3,023,783,595)		(3,023,783,595)
Gross income	1,514,513,148	727,885,177	2,903,604,149		5,146,002,474	(236,271,374)	4,909,731,100
Operating expenses							
Staff costs	(116,145,626)	(6.088,626)	(361,112,216)	(11,229,423)	(494,575,891)	56,304,575	(438,271,316)
Taxes and licenses	(65,362,223)	(38,749,585)	(85,990,201)	(13,292,316)	(203,394,325)		(203,394,325)
Depreciation and amortization	(1,186,061)		(202,559,636)	(16,875)	(203,762,572)	180,729,836	(23,032,736)
Insurance	(2,013,374)		(1,324,884)	(13,163)	(3,351,421)		(3,351,421)
Other general and administrative	(79,924,576)	(277,519,182)	(163,095,841)	(8,751,983)	(529,291,582)	9,161,595	(520,129,987)
Other income (expense)							
Gain (loss) on fair value adjustment of investment							
properties	(136,392,806)		1,281,604,356	180,238,500	1,325,450,050	(445,455,773)	879,994,277
Interest income	148,245,729	21,847,470	19,493,406	1,242,290	190,828,895		190,828,895
Foreign exchange gains (losses), net	13,313,171	5,330,885	5,520,360	(108,816,697)	(84,652,281)	108,839,014	24,186,733
Other income, net	120,722,046	206,668,529	33,851,901	1,462,627,836	1,823,870,312	(1,449,313,799)	374,556,513
Share in net gains of associates and a joint venture							
Interest expense and bank charges	(263,116)	(188,978,167)	(33,652,296)	(135,848,130)	(358,741,709)		(358,741,709)
Income before income tax	1,395,506,312	450,396,501	3,396,339,098	1,366,140,039	6,608,381,950	(1,776,005,926)	4,832,376,024
Provision for income tax	(446,005,860)	(133,913,982)	(659,135,439)	(9,503,010)	(1,248,558,291)	(23,203,276)	(1,271,761,567)
Net income for the year	949,500,452	316,482,519	2,737,203,659	1,356,637,029	5,359,823,659	(1,799,209,202)	3,560,614,457
Segment assets	12,848,496,749	9,146,496,232	30,352,019,019	13,231,383,964	65,578,395,964	(6,322,900,022)	59,255,495,942
Associate companies (Note 8)	•			1,000,388,985	1,000,388,985		1,000,388,985
Total assets	12,848,496,749	9,146,496,232	30,352,019,019	14,231,772,949	66,578,784,949	(6,322,900,022)	60,255,884,927
Segment liabilities	7,051,526,346	4,590,810,260	13,112,558,754	8,757,631,862	33,512,527,222	(12,323,001,527)	21,189,525,695
Capital expenditures for the year (Notes 10 and 13)	58,076,120	17,004,568	489,886,876		564,967,564		564,967,564

The segment assets, liabilities and results of operations of the reportable segments of the Group as at and for the year ended December 31, 2017 are as follows:

	Property development	Leasing	Hotel operation	Others	Total segments	Eliminations	Consolidated
Revenue							
Condominium sales	8,192,197,299				8,192,197,299		8,192,197,299
Rental and cinema			3,213,206,569		3,213,206,569	(231,885,155)	2,981,321,414
Hotel operation		2,596,696,685			2,596,696,685		2,596,696,685
Cost of sales and services							
Condominium sales	(4,726,826,668)				(4,726,826,668)		(4,726,826,668)
Rental and cinema			(218,779,404)		(218,779,404)	(4,159,029)	(222,938,433)
Hotel operation		(2,658,648,660)			(2,658,648,660)		(2,658,648,660)
Gross income (loss)	3,465,370,631	(61,951,975)	2,994,427,165		6,397,845,821	(236,044,184)	6,161,801,637
Operating expenses							
Staff costs	(142,992,270)		(319,727,957)	(10,342,898)	(473,063,125)	30,657,241	(442,405,884)
Taxes and licenses	(95,895,508)		(90,761,302)	(1,515,358)	(188,172,168)		(188,172,168)
Depreciation and amortization	(7.809,435)		(345,581,519)	(34,505)	(353,425,459)	332,969,055	(20,456,404)
Insurance	(200,697)		(782,578)	(10,803)	(994,078)		(994,078)
Other general and administrative expenses	(190,912,048)	(322,975,081)	(295,062,777)	(2,160,519)	(811,110,425)	240,338,444	(570,771,981)
Other income (expense)							
Gain (loss) on fair value adjustments of investment							
properties	(440,547,000)		559,703,983	1,473,390,469	1,592,547,452	(932,380,223)	660,167,229
Interest income	211,539,790		18,848,178	664,111	231,052,079		231,052,079
Foreign exchange gains (losses), net	2,794,395		22,334,009	(4,665,286)	20,463,118	4,666,892	25,130,010
Other income, net	82,157,479		33,172,247	2,010,586,242	2,125,915,968	(1,960,592,359)	165,323,609
Share in net gains of associates and a joint venture				(4,099,987)	(4,099,987)		(4,099,987)
Interest expense and bank charges	(188,570,012)		(28,438,846)	(114,954,005)	(331,962,863)		(331,962,863)
Income (loss) before income tax	2,694,935,325	(384,927,056)	2,548,130,603	3,346,857,461	8,204,996,333	(2,520,385,134)	5,684,611,199
Provision for income tax	(756,502,288)		(531,339,659)	(465,441,298)	(1,753,283,245)	288,754,009	(1,464,529,236)
Net income (loss) for the year	1,938,433,037	(384,927,056)	2,016,790,944	2,881,416,163	6,451,713,088	(2,231,631,125)	4,220,081,963
Segment assets	11,729,438,058	11,554,781,316	28,087,222,598	9,088,747,020	60,460,188,992	(513,332,901)	59,946,856,091
Associate companies (Note 8)				501,935,625	501,935,625		501,935,625
Total assets	11,729,438,058	11,554,781,316	28,087,222,598	9,590,682,645	60,962,124,617	(513,332,901)	60,448,791,716
Segment liabilities	6,978,354,123	7,316,184,909	10,899,297,278	6,405,705,759	31,599,542,069	(7,674,991,633)	23,924,550,436
Canital expanditures for the year (Notes 10 and 13)	599 206	25 132 508	483 478 274	400 622	509 610 610		509 610 610

#### Note 3 - Cash and cash equivalents

Cash and cash equivalents as at December 31 consist of:

	2019	2018
Cash on hand	22,898,792	14,679,720
Cash in banks	428,422,956	592,751,317
Cash equivalents	2,188,767,152	1,824,666,295
<u> </u>	2,640,088,900	2,432,097,332

Cash in banks earned an average interest at respective bank deposit rates ranging from 0.10% to 0.25% in 2019 (2018 - 0.25%).

Cash equivalents are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. Short term investments, which have an average maturity of 30 days, earn interest ranging from 2.25% to 6.38% in 2019 (2018 - 0.50% to 6.375%; 2017 - 0.50% to 2.50%).

Interest income earned for the year ended December 31, 2019 amounted to P44,045,396 (2018 - P54,619,455; 2017 - P69,013,073) (Note 24).

The carrying amounts of the Group's cash and cash equivalents are generally denominated in Philippine Peso, US Dollar and Hong Kong Dollar. The Group's foreign currency denominated cash and cash equivalents as at December 31 are as follows:

		2019			2018	
	Foreign	Exchange	Peso	Foreign	Exchange	Peso
	currency	rate	equivalent	currency	rate	equivalent
US Dollar	1,302,055	50.74	66,066,290	1,988,453	52.72	104,839,221
HK Dollar	-	-	-	93,259	6.73	628,043

Realized and unrealized exchange loss, presented within other income in the consolidated statement of total comprehensive income for the year ended December 31, 2019, amounted to P2,798,376 and P4,958,704, respectively (2018 - P7,767,221 realized exchange gain and P16,419,512 unrealized exchange gain; 2017 - P22,933,177 realized exchange gain and P2,196,833 unrealized exchange gain).

#### Note 4 - Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss represent shares of stock of various locally listed companies and valued based on current bid prices in an active market (Level 1 valuation). Movements in the account for the years ended December 31 are as follows:

	Note	2019	2018
At January 1		41,424,316	45,969,343
Loss on fair value adjustment	24	(5,145,472)	(4,545,027)
At December 31		36,278,844	41,424,316

Fair value adjustments of financial assets at fair value through profit or loss are presented in the consolidated statements of total comprehensive income as part of other income (Note 24).

#### Note 5 - Trade and other receivables, net

Trade and other receivables, net, as at December 31 consist of:

	Note	2019	2018
Trade			
Installment contracts receivable		3,365,390,819	1,553,678,143
Rent	28	211,633,668	205,873,027
Receivables from guests and concessionaires		119,345,385	109,877,534
Non-trade			
Related parties	28	1,464,226,125	1,347,189,510
Advances to officers and employees		4,000,339	15,676,675
Interest		2,900,097	3,824,782
Others		66,298,077	63,433,204
		5,233,794,510	3,299,552,875
Allowance for impairment of receivables		(14,498,427)	(15,542,333)
·		5,219,296,083	3,284,010,542

Installment contracts receivable arises from sale of condominium units with average term ranging from one to five years, with last installment collectible in 2020. This arises when the revenue recognized to date under the percentage-of-completion method exceeds the total collections from the buyer. The amounts due from the condominium buyers are subject to either bank financing or in-house financing. Interest income earned from installment contracts receivable for the year ended December 31, 2019 amounted to P166,691,384 (2018 - P127,423,327; 2017 - P157,547,654) (Note 24).

Rent receivables are non-interest bearing and pertain to rental fees charged to tenants and to the Group's affiliates for the office, commercial and carpark spaces. The normal credit terms range from 30 to 60 days.

Receivables from guests and concessionaires pertain to receivables arising from hotel, restaurant and rental services. These are usually due within 30 days and do not bear any interest.

Advances to officers and employees are normally settled within the next financial year.

Other receivables are non-interest bearing and consist of income from banner and non-tenant related receivables.

Movements in allowance for impairment of receivables for the years ended December 31 are as follows:

	Note	2019	2018
At January 1		15,542,333	12,252,379
Provision	23	170,000	8,468,256
Write-off		(1,213,906)	(5,178,302)
At December 31		14,498,427	15,542,333

The expected cash flows from installment contracts receivable as at December 31, 2019 and 2018 are as follows:

	2019	2018
Expected cash flows in:		
2019	-	3,952,123,391
2020	4,226,009,887	776,161,987
	4,226,009,887	4,728,285,378
Less: Unearned income and unamortized discount	(860,619,067)	(3,174,607,235)
	3,365,390,820	1,553,678,143

Unearned income is the portion of the total contract price of sold units which remains to be unearned as of the reporting period. The amount will be recognized as condominium sales as the construction of the projects progress based on the percentage of completion of the projects. The unearned income portion of contract price from sold condominium units as at December 31, 2019 amounted to P860,619,067 (2018 - P3,174,607,235). The Group expects to realize this amount during the remaining construction period of The Rise project.

The movements in the unearned income and unamortized discount on installment contracts receivable are as follows:

	Note	2019	2018
At January 1		3,174,607,235	328,323,106
Additions		2,281,042,865	7,964,955,735
Recognized as:			
Condominium sales		(4,428,339,649)	(4,991,248,279)
Interest income	24	(166,691,384)	(127,423,327)
At December 31		860,619,067	3,174,607,235

The carrying amounts of the Group's trade and other receivables are all denominated in Philippine Peso.

There were no trade and other receivables pledged as collaterals as at December 31, 2019 and 2018.

#### Note 6 - Properties held for sale

Properties held for sale as at December 31 consist of:

	2019	2018
Condominium units held for sale	486,168,462	576,106,507
Construction in-progress	2,390,076,899	3,101,470,846
	2,876,245,361	3,677,577,353

On November 2, 2015, TRDCI entered into a contract with Vivelya Development Company, Inc. (VDCI) to purchase the land where TRDCI's project is currently being constructed. The consideration for the land is for a minimum base price of P1.10 billion, exclusive of 12% VAT. Payment term for the purchase price includes down payment of fifteen per cent (15%) of base price amounting to P165.00 million, exclusive of 12% VAT, upon signing of the contract. The remaining balance of the purchase price is payable on a quarterly installment basis until full payment of the purchase price.

As at December 31, 2019, installment payable at amortized cost amounted to P443,917,972 (2018 - P541,161,733). Interest cost related to the amortization of the installment payable amounted to P15,365,728 in 2019 (2018 - P14,143,726; 2017 - P17,819,742) and was capitalized as part of construction in-progress. The unamortized discount on installment payable amounted to P674,538 as at December 31, 2019 (2018 - P16,040,267; 2017 - P30,183,992).

In 2018, the Group completed the construction and development of Shang Salcedo Place Project and Horizon Homes at Shangri-La at the Fort Project. The Group also started the construction and development of Shang Residences at Wack Wack Project during the same year.

As at December 31, 2019, the Group has remaining estimated cost to complete the on-going projects namely, The Rise Makati and Shang Residences at Wack Wack amounting to P661,009,994 and P3,913,538,022, respectively (2018 - The Rise Makati and Shang Residences at Wack Wack amounting to P2,870,626,926 and P4,018,830,736, respectively; 2017 - The Rise Makati, Shang Salcedo Place and Horizon Homes at Shangri-La at the Fort amounting to P5,451,119,513, P236,610,499 and P104,795,263, respectively).

The movements in condominium units held for sale as at December 31 are as follows:

	2019	2018
At January 1	576,106,507	194,946,068
Recognition of additional costs	32,023,095	
Buyback of unit at cost	-	4,947,130
Transfer from construction in-progress		1,164,094,588
Recognized cost of condominium sales excluding commissions	(121,961,140)	(787,881,279)
At December 31	486,168,462	576,106,507

In 2019, SPDI recognized additional costs incurred to the Shang Salcedo Place amounting to P32,023,095.

The movements in construction in-progress as at December 31 are as follows:

	Note	2019	2018
At January 1		3,101,470,846	6,040,627,147
Construction and development costs incurred:			
Construction cost		1,611,800,483	3,013,847,567
Project management expenses		207,575,388	221,953,108
Professional and consultancy fees		37,950,318	61,329,141
Insurance and bonds		17,602,041	2,769,873
Land cost		15,365,728	17,507,211
Taxes, permits and licenses		12,521,425	21,978,629
Others		24,391,177	27,490,989
Transfer to real estate development projects	11	(226,815,885)	(3,096,726,897)
Transfer to condominium units held for sale excluding			
commissions			(1,164,094,588)
Recognized cost of condominium sales excluding			, ,
commissions		(2,411,784,622)	(2,045,211,334)
At December 31		2,390,076,899	3,101,470,846

The cost of condominium sales recognized as expense and presented as part of cost of sales and services in the consolidated statements of total comprehensive income amounted to P2,696,938,381 in 2019 (2018 - P3,000,561,223; 2017 - P4,726,826,668) (Note 21).

Condominium units held for sale and construction in-progress are stated at cost as at December 31, 2019 and 2018. There were no allowances for inventory write-down as at December 31, 2019 and 2018.

#### Note 7 - Prepaid taxes and other current assets

Prepaid taxes and other current assets as at December 31 consist of:

	2019	2018
Advances to contractors and suppliers	532,967,837	672,584,614
Creditable withholding tax (CWT)	398,877,908	352,984,660
Prepaid commission	107,336,710	145,844,338
Input value added tax (VAT)	102,028,661	165,546,301
Prepaid property tax	96,704,392	53,231,740
Inventories	17,702,227	28,049,290
Staff accommodation rentals	7,415,455	9,193,448
Deferred input VAT	6,597,630	23,275,155
Software support	4,720,972	2,324,098
Refundable deposits	3,537,728	3,567,100
Prepaid insurance	127,746	16,125,672
Other prepaid expenses	36,001,249	42,785,839
	1,314,018,515	1,515,512,255

Advances to contractors and suppliers pertain to down payment made by the Group for the construction and development of its condominium properties. These are not collectible but recouped upon every progress billing by the contractors and suppliers based on milestones or percentage of accomplishment or delivery as stipulated in the contracts.

CWT is the tax withheld by the withholding agents from payments to the Group which can be applied against the income tax payable.

Prepaid commission pertains to the excess of the commission paid to property consultants and brokers over the commission expense recognized for the year based on the percentage of completion.

Input VAT represents tax paid to suppliers that can be claimed as credit against the future output VAT liabilities without prescription.

Inventories consist of food, beverages and other recreational consumable items for the hotel operation. The inventories are stated at cost. There is no allowance for decline in value of inventories as at December 31, 2019 and 2018.

Other prepaid expenses mainly consist of advance payments for rent, and other expenses which are normally utilized within the next financial year.

#### Note 8 - Investments in and advances to an associate and a joint venture

Investment in an associate and a joint venture as at December 31 consist of:

	2019	2018
Investment in an associate		
Acquisition costs		
At January 1	388,985	524,710,625
Acquisition of additional interest in a previously held		
associate	-	(524,321,640)
At December 31	388,985	388,985
Accumulated share in net losses		
At January 1	-	(22,775,000)
Acquisition of additional interest in a previously held		
associate	-	22,775,000
At December 31	-	-
	388,985	388,985
Investment in a joint venture		
At January 1	1,000,000,000	-
Additions to investment		1,000,000,000
Share in net income	101,237,114	-
At December 31	1,101,237,114	1,000,000,000
	1,101,626,099	1,000,388,985
Advances to a joint venture	1,019,989,374	-
	2,121,615,473	1,000,388,985

#### (a) Investment in an associate

The Group is restricted from declaring dividends out of the accumulated share in net profits until these are declared by the associates.

As at December 31, 2019 and 2018, the Group owns a 40% interest in Ideal Sites and Properties, Inc. (ISPI). Summarized financial information of ISPI as at and for the years ended December 31 are presented below:

		2212	2010
		2019	2018
Summarized statements of financial position			
Current assets		905,385	849,302
Current liabilities		(5,957,999)	(5,832,176)
Current net liabilities		(5,052,614)	(4,982,874)
Non-current assets		1,463,653	1,469,445
Non-current liabilities		-	(4,771)
Non-current net assets		1,463,653	1,464,674
Net assets		(3,588,961)	(3,518,200)
	2019	2018	2017
Summarized statements of total comprehensive	income		
Gross revenue	118,452	128,580	347,938
Expenses	(187,874)	(504,111)	(393, 106)
Loss before income tax	(69,422)	(375,531)	(45,168)
Benefit from (provision for) income tax	8,080	(4,422)	(1,053)
Net loss for the year	(61,342)	(379,953)	(46,221)
Other comprehensive loss for the year	(9,419)	(4,710)	(65,937)
Total comprehensive loss for the year	(70,761)	(384,663)	(112,158)

	2019	2018	2017
Summarized statements of cash flows			
Operating activities	(20,260)	(14,616)	(245,586)
Investing activities	82,656	92,076	77,711
Financing activities			-
Net effect of exchange rate changes on cash and			
cash equivalents	(12,092)	17,147	1,246
Net increase (decrease) in cash and cash			
equivalents	50,304	94,607	(166,629)

On March 2, 2018, Perfect Sites, Inc. (PSI), a wholly-owned subsidiary of the Parent Company, acquired the remaining 50% interest in Sky Leisure Properties, Inc. (SLPI) through step-acquisition. The acquisition was accounted for as an asset acquisition because the group of assets and liabilities acquired does not meet the definition of a business. Total consideration amounted to P888,201,910 which consists of the cash consideration and previously held investment in associates amounting to P363,880,270 and P524,321,640, respectively. The cash consideration is paid by the Parent Company and is considered a non-cash investing activity. PSI also paid the advances from the previous shareholder of SLPI and legal fees attributable to the acquisition amounting to P319,119,730 and P26,785,714, respectively. The legal fees were considered as part of the cost of acquisition.

The total cost of the acquisition was allocated to the group of asset and liabilities acquired based on the relative fair value. The identifiable assets acquired and liabilities recognized as a result of the step-acquisition at acquisition date are presented below.

	2018
Asset	
Cash and cash equivalents	4,010,484
Investment properties	1,040,991,452
<u> </u>	1,045,001,936
Liabilities	
Accounts payable and other current liabilities	74,047,699
Deferred income tax liabilities, net	82,752,327
	156,800,026
Net assets	888,201,910

#### (b) Investment in and advances to a joint venture

On March 22, 2018, the Parent Company entered into a Joint Venture Agreement with Robinsons Land Corporation for the development of a property into a mixed-use condominium project. Within two (2) months from the effective date of the Agreement, the parties shall establish the joint venture company ("JVC") and shall execute the Articles and By-Laws of the JVC. On May 23, 2018, the SEC approved the Certificate of Incorporation of the JVC, Shang Robinsons Properties, Inc.

The JVC's registered office address, which is also its principal place of business, is at Cyber Sigma, Lawton Avenue, Taguig City.

The JVC shall engage in: (i) the business of developing a property into a mixed-use development, (ii) the marketing and sale of the residential condominium units in the project, (iii) and the lease of serviced apartment units and/or commercial units in the project.

The authorized capital stock of the JVC is P3,000,000,000 divided into 3,000,000,000 common shares with par value of P1.00 per share. The JVC is equally owned by the parties at 50% each. On April 19, 2018, the Parent Company subscribed and paid in full the amount of P1,000,000,000 equivalent to 1,000,000,000 commons shares at P1.00 per share.

The JVC commenced operations in 2019 and sold 37% of its condominium units. As at December 31, 2019, the percentage-of-completion (POC) of the JVC's construction-in-progress is at 3.21%. In 2019, the Group's share in net income of the joint venture amounted to P101,237,114.

In 2019, advances amounting to P1,019,989,374 were extended to the JVC. These are non-current and bear interest at a rate of 4%.

Summarized financial information of the JVC as at and for the years ended December 31 are presented below:

	2019	2018
Summarized statements of financial position		
Current assets	9,172,554,112	5,962,538,659
Current liabilities	(2,896,394,000)	(1,120,640,578)
Current net assets	6,276,160,112	4,841,898,081
Non-current assets	18,277,783	148,037,223
Non-current liabilities	(4,110,968,362)	(3,008,940,000)
Non-current net liabilities	(4,092,690,579)	(2,860,902,777)
Net assets	2,183,469,533	1,980,995,304
	2019	2018
Summarized statements of total comprehensive income		
Gross revenue	493,523,933	-
Net income (loss) for the year	202,474,229	(19,004,696)
Other comprehensive income for the year	-	-
Total comprehensive income (loss) for the year	202,474,229	(19,004,696)
	2019	2018
Summarized statements of cash flows		
Operating activities	1,579,557,178	(5,379,570,732)
Investing activities	-	-
Financing activities	876,570,242	6,118,901,600
Net effect of exchange rate changes on cash and		
cash equivalents	(288,965)	(102,811)
Net increase in cash and cash equivalents	2,455,838,455	739,228,057

#### Note 9 - Non-controlling interests

The proportion of equity interest held by the non-controlling interest (NCI) of KSA and SGCPI, the Group's subsidiaries with NCI that are deemed material, are as follows:

	2019	2018
KSA	29.96%	29.96%
SGCPI	40.00%	40.00%

On June 20, 2016, the Parent Company acquired 207,082 KSA common shares from Ocmador Philippines, B.V. for a purchase price amounting to P1,419,610,919. The Parent Company accounted for the increase in ownership in KSA from 52.90% to 70.04% as equity transaction. The difference between the considerations paid and the carrying amount of the NCI acquired is recognized directly in equity reserves amounting to P141,132,606.

The summarized financial information of subsidiaries with material NCI are provided below. The information is based on amounts before inter-company eliminations.

#### (a) KSA Realty Corporation

		2019	2018
Summarized statements of financial position			
Current assets		462,514,679	543,458,320
Current liabilities		(457,006,457)	(509,480,448)
Current net assets		5,508,222	33,977,872
Non-current assets		10,673,621,504	10,611,286,514
Non-current liabilities		(2,802,195,974)	(2,606,434,752)
Non-current net assets		7,871,425,530	8,004,851,762
Equity		7,876,933,752	8,038,829,634
Equity attributable to:			
Equity holders of the Parent Company		5,513,853,626	5,630,396,276
NCI		2,363,080,126	2,408,433,358
		7,876,933,752	8,038,829,634
Dividends declared to NCI		398,468,000	317,576,000
	2019	2018	2017
Summarized statements of total comprehensive			
Revenues	1,429,812,199	1,249,996,056	1,197,165,399
Cost and expenses	(71,929,445)	(70,847,981)	(67,751,093)
Other income, net	89,508,516	660,520,320	576,042,614
Income before income tax	1,447,391,270	1,839,668,395	1,705,456,920
Provision for income tax	(279,232,769)	(423,276,174)	(382,225,433)
Net income for the year	1,168,158,501	1,416,392,221	1,323,231,487
Other comprehensive loss	(54,383)	(17,995)	(15,304)
Total comprehensive income	1,168,104,118	1,416,374,226	1,323,216,183
Net income attributable to:			
Equity holders of the Parent Company	818,178,214	992,041,113	926,791,333
NCI	349,980,287	424,351,108	396,440,154
	1,168,158,501	1,416,392,221	1,323,231,487
Total comprehensive income attributable to:			
Equity holders of the Parent Company	818,139,622	992,028,509	926,780,615
NCI	349,964,496	424,345,717	396,435,568
	1,168,104,118	1,416,374,226	1,323,216,183
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	2019	2018	2017
Summarized statements of cash flows			
Operating activities	1,247,497,746	1,086,939,089	1,058,253,844
Investing activities	(2,369,718)	(9,004,907)	(352,972,946)
Financing activities	(1,330,000,000)	(1,060,000,000)	(800,000,000)
Net effect of exchange rate changes on	•		
cash and cash equivalents	(16,948)	25,179	(8,223)
Net increase (decrease) in cash and cash			
equivalents	(84,888,920)	17,959,361	(94,727,325)
equivalents	(84,888,920)	17,959,361	(94,727,3

The principal place of business of KSA is at Administration Office, Shangri-La Plaza Mall, Edsa corner Shaw Boulevard, Mandaluyong City.

### (b) Shang Global City Properties, Inc.

		2019	2018
Summarized statements of financial position			
Current assets		881,210,512	1,557,160,698
Current liabilities		(1,369,367,257)	(1,818,647,846)
Current net liabilities		(488, 156, 745)	(261,487,148)
Non-current assets		9,820,274,434	10,800,893,831
Non-current liabilities		(1,525,408,317)	(2,772,162,422)
Non-current net assets		8,294,866,117	8,028,731,409
Equity		7,806,709,372	7,767,244,261
Equity attributable to:			
Equity holders of the Parent Company		4,684,151,715	4,660,346,556
NCI		3,122,557,657	3,106,897,705
		7,806,709,372	7,767,244,261
Summarized statements of total	2019	2018	2017
comprehensive income			
Revenues	3,701,852,718	4,061,702,373	7,165,524,915
Cost of sales and services	(2,696,734,646)	(2,830,396,604)	(4,437,370,645)
Operating expenses	(772,931,747)	(803,393,266)	(850,267,458)
Other income (expenses), net	(163,685,699)	15,851,888	(151,671,145)
Income before income tax	68,500,626	443,764,391	1,726,215,667
Provision for income tax	(25,143,078)	(133,913,982)	(516,525,165)
Net income for the year	43,357,548	309,850,409	1,209,690,502
Other comprehensive income (loss)	(3,892,437)	7,239,149	195,406
Total comprehensive income	39,465,111	317,089,558	1,209,885,908
Net income attributable to:	00,400,111	017,000,000	1,200,000,000
Equity holders of the Parent Company	26,015,229	185,915,250	732,214,650
NCI	17,342,319	123,935,159	477,475,852
1401	43,357,548	309,850,409	1,209,690,502
Total comprehensive income attributable to:	43,337,340	309,030,409	1,209,090,302
Equity holders of the Parent Company	23,679,704	190,258,740	722 224 004
NCI	15,785,407	126,830,818	732,331,894 477,554,014
NOI			
	39,465,111	317,089,558	1,209,885,908
	2019	2018	2017
Summarized statements of cash flows			
Operating activities	979,260,721	2,896,350,545	6,046,520,678
Investing activities	(144,178,230)	(612,443,432)	(711,652,376)
Financing activities	(1,396,972,328)	(3,078,230,241)	(4,390,745,685)
Net effect of exchange rate changes on cash			
and cash equivalents	9,897	(17,623)	(724,842)
Net decrease in cash and cash equivalents	(561,879,940)	(794,340,751)	943,397,775

No dividends were declared and paid by SGCPI in 2019 and 2018.

The principal place of business of SGCPI is at Crescent Park West District, Fort Bonifacio Global City, Taguig City.

#### Note 10 - Investment properties

Details of investment properties as at December 31 and their movements during the years are as follows:

	Note	Land	Building	Total
At January 1, 2018		11,794,156,481	18,306,046,962	30,100,203,443
Gain on fair value adjustment		814,449,087	65,545,190	879,994,277
Capitalized subsequent expenditures		45,226,174	444,660,702	489,886,876
Addition through step-acquisition	8	1,040,991,452	-	1,040,991,452
At December 31, 2018		13,694,823,194	18,816,252,854	32,511,076,048
Gain (loss) on fair value adjustment		1,445,898,813	(1,169,201,426)	276,697,387
Capitalized subsequent expenditures		113,188,592	2,414,741	115,603,333
At December 31, 2019		15,253,910,599	17,649,466,169	32,903,376,768

The Group's investment properties located in Mandaluyong City and Makati City include parcels of land and buildings held for office and retail leases and other parcels of land held for capital appreciation.

As at December 31, 2019 and 2018, the fair values of the properties are based on valuations performed by an independent external appraiser engaged by the management. The valuation models are in accordance with that recommended by the International Valuation Standards Committee.

The Group has no restrictions on the realizability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

The fair value measurements for investment properties have been categorized as Level 3 for parcels of land and building properties. The current use of these properties is their highest and best use.

The following table presents the valuation techniques and unobservable key inputs used to value the Group's building and land properties:

Property	Fair value as at December 31, 2019	Valuation technique	Unobservable inputs	Range of unobservable inputs (probability - weighted average)	Relationship of unobservable inputs to fair value
The Enterprise Center		Direct income	Rental value	P1,680 per square meter	The higher the
(Office)	(2018 - P10,595,778,000)	capitalization		(2018 - P1,300)	rental value and
			Occupancy	95%	occupancy rate, th
			rate	(2018 - 94%)	higher the fair value.
			Expense-	5.55%	The higher the
			revenue ratio	(2018 - 5.26%)	expense- revenue
			Discount rate	11.37%	ratio and discount
				(2018 - 9%)	rate, the lower the
					fair value.
Main wing and east	P12,232,029,000	Direct income	Rental value	P1,700 per square meter	The higher the
wing of Shangri-La	(2018 - P13,358,794,000)	capitalization		(2018 - P1,650)	rental value and
Plaza mall (Retail),		-	Occupancy	96%	occupancy rate, the
including the land			rate	(2018 - 93%)	higher the fair
where the property is			1010	(2010-0070)	value.
located			Expense-	23%	The higher the
			revenue ratio	(2018 - 27%)	expense- revenue
			Discount rate	12.37%	ratio and discount
				(2018 - 9%)	rate, the lower the
				(2010 010)	fair value.

The fair values of the building and land properties are calculated using the direct income capitalization approach. In applying the direct income capitalization approach, the stabilized net operating income (NOI) of each property is divided by an appropriate capitalization rate. Discount rate is based on actual location, size and quality of the property and taking into account any available market data at the valuation date. Stabilized NOI is computed at revenue less property operating expenses adjusted for items such as average lease up costs, long-term vacancy rates, non-recoverable capital expenditures, management fees, straight-line rents and other non-recurring items.

Generally, an increase in stabilized NOI will result in an increase in the fair value of an investment property. An increase in the discount rate will result in a decrease in the fair value of an investment property. The discount rate magnifies the effect of a change in stabilized NOI, with a lower discount rate resulting in a greater impact of a change in stabilized NOI than a higher discount rate.

The following are the significant unobservable inputs:

- Rental value average rental rate per square meter paid by tenants based on the asking price in the market:
- Discount rates reflecting current market assessments of the uncertainty in the amount and timing of cash flows;
- Occupancy rate based on current and expected future market conditions after expiry of any current lease; and
- Expense revenue ratio total direct operating expenses for the entire property based on budget.

The following table presents the valuation techniques and unobservable key inputs used to value the Group's other land property:

				Range of unobservable	Relationship of
	Fair value as at	Valuation	Unobservable	inputs (probability -	unobservable
Property	December 31, 2019	technique	inputs	weighted average)	inputs to fair value
Land where the Edsa	P5,355,528,000	Market	Comparable	P222,000 per square meter	The higher the
Shangri-La, Manila is	(2018 - P4,221,700,000)	comparison	transactions	(2018 - P298,246)	comparable
located		approach			transactions, the
					higher the fair
					value.
			Price	36.67%	The higher the
			adjustments	(2018 - 41.67%)	price adjustments,
					the lower the fair
					value.

The fair values of the Company's other land properties are determined using the market comparison approach. Under the market comparison approach, a property's fair value is estimated based on comparable transactions adjusted for bargaining allowance, marketability, location, size and terrain. The market comparison approach is based upon the principle of substitution under which a potential buyer will not pay more for the property than it will cost to buy a comparable substitute property. In theory, the best comparable sale would be an exact duplicate of the subject property and would indicate, by the known selling price of the duplicate, the price for which the subject property could be sold. The unit of comparison applied by the Group is the price per square meter (sqm).

The remaining investment properties relate to individually immaterial land and building properties whose fair values have been determined in the prior years and are subject to reassessment in accordance with the Group's accounting policy.

The amounts recognized in the consolidated statements of total comprehensive income for investment properties for the years ended December 31 are as follows:

	2019	2018	2017
Rental revenue	3,278,602,944	2,991,967,885	2,928,811,951
Cinema revenue	74,663,096	25,363,366	52,509,463
Total rental and cinema revenue	3,353,266,040	3,017,331,251	2,981,321,414
Direct operating expenses	(169,393,067)	(246,411,337)	(222,938,433)
Profit arising from investment properties			
carried at fair value	3,183,872,973	2,770,919,914	2,758,382,981

Direct operating expenses include share in common expenses, real property taxes and insurance expenses (Note 21).

There is no restriction on the realizability of investment properties or the remittance of income and proceeds of disposal.

The Group has cancellable lease agreements with third parties covering the freehold buildings and their improvements. The lease arrangements are either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

Details of the gross rental income related to these cancellable lease agreements for the years ended December 31 are as follows:

	2019	2018	2017
Percentage basis	988,628,467	952,052,008	983,435,320
Fixed monthly rental	2,289,974,477	2,039,915,877	1,945,376,631
	3,278,602,944	2,991,967,885	2,928,811,951

#### Note 11 - Real estate development projects

Real estate development projects account includes construction cost related to the Parent Company, SGCPI and TRDCI as follows:

#### (a) Parent Company

In 2019, the Parent Company started construction of a project located in the City of Mandaluyong. The project is being constructed on a parcel of land registered in the Parent Company's name. The construction of the project is ongoing and is expected to be completed in 2023. Upon completion, the project will be subsequently leased out to third parties and related parties. Project management costs in 2018 amounting to P45,181,174 was reclassified from "construction in-progress" under properties held for sale to "real estate development projects" (Note 6). As at December 31, 2019, total capitalized costs relating to the project amounted to P857,152,570.

#### (b) SGCPI

During 2018, costs related to the construction of the hotel portion of SGCPI's Shangri-La at the Fort project amounting to P2,836,522,171 was incurred and subsequently reclassified to property and equipment account. As at December 31, 2018, the outstanding balance amounting to P47,123,708 relates to the development of hotel restaurants and facilities still in-progress which were reclassified to property and equipment upon completion in 2019 (Note 13).

#### (c) TRDCI

As at December 31, 2019 and 2018, the real estate development project account includes the construction cost of the retail portion of The Rise Makati Project amounting to P630,461,091 and P448,826,380, respectively. In 2019, additional costs of the project amounting to P181,634,711 were incurred and reclassified to real estate development projects from "construction in-progress" under properties held for sale (2018 - P260,204,726) (Note 6).

#### Note 12 - Financial assets at fair value through other comprehensive income, net

Financial assets at fair value through other comprehensive income (FVOCI), net as at December 31, 2019 are presented below.

	2019	2018
Unquoted	488,429,727	489,126,227
Quoted	9,101,515	9,101,515
	497,531,242	498,227,742
Cumulative changes in fair value	306,137,254	284,168,254
	803,668,496	782,395,996

Unquoted equity securities include unlisted shares of stock which were previously carried at cost. In 2018, these securities are measured at fair value. The fair values of the unquoted equity securities are based on the net asset value of the underlying assets which are mainly investment properties consisting of land and buildings which are measured and carried at fair value of underlying assets. The fair value measurements have been categorized as Level 3 with the following significant unobservable inputs in the computation of the fair value of investment properties: (1) rental value average rental rate, (2) discount rates, (3) occupancy rate, (4) expense - revenue ratio, and (5) comparable transactions adjusted for bargaining allowance, marketability, location, size and terrain. The net asset value per share of unquoted equity securities ranges from P1,043 per share to P465,053 per share.

The Group wrote off unquoted equity securities in 2019 with cost of P696,500 and cumulative changes in fair value of P1,270,000 (2018 - nil).

The quoted equity securities consist of investments in various golf club shares and stocks. These are carried at fair values which are based on the quoted market prices (Level 1) as at the reporting date.

The cumulative changes in fair values of unquoted and quoted equity shares are presented as part of other comprehensive income in the consolidated statements of financial position.

The movements in the cumulative changes in fair value of financial assets at FVOCI for the years ended December 31 are as follows:

	2019	2018	2017
At January 1	243,226,016	14,965,000	10,345,000
Impact of PFRS 9 adoption	-	260,073,254	-
Deferred income tax effect	-	(39,572,738)	-
January 1, calculated under PFRS 9	243,226,016	235,465,516	10,345,000
Gain on fair value adjustment	21,969,000	9,130,000	6,600,000
Derecognition of cumulative changes in			
fair value of equity investments written-off	(1,270,000)	-	-
	263,925,016	244,595,516	16,945,000
Deferred income tax effect	(755,350)	(1,369,500)	(1,980,000)
At December 31	263,169,666	243,226,016	14,965,000

#### Note 13 - Property and equipment, net

Details of property and equipment, net, as at December 31 and their movements during the years are as follows:

	Building and		Furniture,	
	building	Transportation	fixtures and	
	improvements	equipment	other equipment	Total
Cost				
At January 1, 2019	9,424,595,767	50,989,050	6,851,791,731	16,327,376,548
Transfer from real estate				
development projects (Note 11)	18,762,768		28,360,940	47,123,708
Additions	12,084,249	10,379,063	102,628,781	125,092,093
Disposals	-	(7,226,512)	(4,521,249)	(11,747,761
At December 31, 2019	9,455,442,784	54,141,601	6,978,260,203	16,487,844,588
Accumulated depreciation				
and amortization				
At January 1, 2019	1,043,157,423	32,928,318	1,496,549,444	2,572,635,185
Depreciation and amortization	167,173,715	6,984,752	940,949,394	1,115,107,861
Disposals		(7,226,512)	(4,161,526)	(11,388,038
At December 31, 2019	1,210,331,138	32,686,558	2,433,337,312	3,676,355,008
Cost				
At January 1, 2018	6,930,869,920	48,988,407	6,505,282,732	13,485,141,059
Transfer from real estate				
development projects (Note 11)	2,507,138,589		329,383,582	2,836,522,171
Additions	49,503,258	2,000,679	23,576,751	75,080,688
Disposals	(62,916,000)	(36)	(6,451,334)	(69,367,370
At December 31, 2018	9,424,595,767	50,989,050	6,851,791,731	16,327,376,548
Accumulated depreciation and amortization				
At January 1, 2018	714,183,515	26,609,598	796,613,528	1,537,406,641
Depreciation and amortization	328,973,908	6,318,756	706,306,833	1,041,599,497
Disposals		(36)	(6,370,917)	(6,370,953
At December 31, 2018	1,043,157,423	32,928,318	1,496,549,444	2,572,635,185
Net book values at				
At December 31, 2019	8,245,111,646	21,455,043	4,544,922,891	12,811,489,580
At December 31, 2018	8,381,438,344	18,060,732	5,355,242,287	13,754,741,363

Building and building improvements include land rights which pertain to the share of SGCPI in the land where the construction project was constructed after deducting the rights allocated to condominium unit owners.

Depreciation and amortization was allocated as follows:

	Notes	2019	2018	2017
Cost of sales and services	21	1,080,551,476	1,018,566,761	877,576,286
Operating expenses		33,625,702	23,032,736	20,456,404
Capitalized under property held				
for sale	6	930,683	-	-
		1,115,107,861	1,041,599,497	898,032,690

There are no restrictions on the Group's title on property and equipment and no property and equipment were pledged as security for liabilities.

#### Note 14 - Goodwill

Goodwill acquired through business combinations amounting to P269,870,864 has been allocated to SGCPI, the CGU, for impairment testing.

The recoverable amount of the CGU has been based on value in use calculation using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to cash flow is 4.13% (2018 - 8.00%). Cash flows beyond the five-year period are extrapolated using a steady growth rate of 3.40% (2018 - 4.30%), which does not exceed the compounded annual growth rate for the real estate industry. As a result of the analysis, management did not identify impairment for this CGU.

The calculations of value in use for the CGU are most sensitive to the following assumptions:

- Discount Rates Discount rate represents the current market assessment of the risks specific to the CGU, taking into consideration the time value of money and individual risks of the CGU that have not been incorporated in the cash flow estimates. The discount rate is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of debt refers to the effective rate the Group pays on its debt. It is derived from BSP's average long-term interest rates on loans and discounts granted by local banks, universal banks subsidiaries of foreign banks, and foreign banks operating in the Philippines. The cost of equity is derived from the expected return on investment. The rates used to discount the future cash flows are based on risk-free interest rates in the relevant markets where the CGU operates. The beta factors are based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.
- Terminal growth rate Rates are based on published industry research.

The following assumptions are also considered in the calculation of value in use of the CGU:

- Gross margins Gross margins are based on average values achieved in one to five years preceding
  the beginning of the budget period from other similar affiliated entities.
- Market share assumptions When using industry data for growth rates (as noted above), these
  assumptions are important because management assesses how the unit's position, relative to its
  competitors, might change over the forecast period. Management expects its share of the real estate
  market to be stable over the forecast period.

With regard to the assessment of value in use of the CGU, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the property to exceed its recoverable amount.

#### Note 15 - Other non-current assets

Other non-current assets as at December 31 consist of:

	Note	2019	2018
Deposit for a future project		422,000,000	250,295,000
Refundable deposits		132,838,523	76,104,635
Deferred input VAT		62,870,019	29,001,280
Retirement benefit asset	25	25,320,182	13,009,973
		643,028,724	368,410,888

On March 28, 2018, the Parent Company entered into a Memorandum of Agreement with a third party to purchase a parcel of land located along Shaw Boulevard in Mandaluyong City for development and other activities to create a real estate property intended for future lease or sale. As at December 31, 2018, the Parent Company deposited 50% of the total purchase price amounting to P500,500,000 to the third party. The remaining amount was paid by the Parent Company on July 1, 2019 and the entire cost of land was reclassified to real estate development projects.

On December 12, 2019, the Parent Company paid P422,000,000 as a first installment for a 50% share in an investment. The Parent Company expects to pay the second installment on December 12, 2020.

Refundable deposits are cash paid by the Group for construction of condominium units and deposits to utility companies which are expected to be returned after a specified period of time, or when certain conditions are satisfied.

Deferred input VAT represents non-current portion of VAT arising from the purchase of capital goods on credit.

Note 16 - Accounts payable and other current liabilities

Accounts payable and other current liabilities as at December 31 consist of:

	Notes	2019	2018
Trade:			
Accounts payable		653,706,710	644,928,182
Advance rentals	30	271,914,158	132,235,230
Accrued expenses:			
Construction		555,359,817	260,254,895
Taxes		229,087,026	228,412,001
Titling cost		335,706,109	121,120,927
Employee benefits		154,839,915	138,224,376
Outside services		103,848,111	80,883,579
Utilities		91,898,665	73,884,450
Repairs and maintenance		58,768,131	45,879,025
Commission		37,661,896	33,014,919
Interest	17	22,829,348	34,220,895
Professional fees		22,169,700	26,149,240
Advertising and promotion		16,057,275	16,347,158
Others		9,529,746	89,263,015
Customers' deposits from:			
Condominium sales		524,538,746	662,845,921
Hotel guests		160,249,477	116,875,586
Retention payables		847,964,710	929,513,282
Reservation payables		819,251,496	657,102,989
Advances from condominium unit buyers		165,052,377	260,067,135
Contract liabilities		132,446,606	
Payable to contractors and suppliers		57,528,550	44,097,825
Construction bonds		63,129,360	60,762,162
Non-trade:			
Payable to related parties	28	100,489,253	113,350,775
Deferred output VAT		414,694,924	257,355,410
Payable to government agencies		149,500,917	140,261,434
Output VAT		46,212,920	52,466,842
Others		124,995,694	172,276,475
		6,169,431,637	5,391,793,728

Accounts payable and accrued expenses are non-interest bearing and are normally settled within 30 to 60 days and within the next financial year, respectively.

Advance rentals pertain to the three-month rent collected from tenants to be applied to the last three (3) months of the lease term.

Contract liabilities represent any excess collections received from buyers over the revenue recognized based on the percentage of completion method. The amount is expected to be applied against revenue in the following year. In 2018, the Group recognized revenue from condominium sales arising from contract liabilities in 2017.

Customers' deposits from condominium buyers represent initial collections (e.g. down payments) received from the buyers which shall be applied as payment of the transaction price when the sales contract meets the requirements of PFRS 15 for revenue recognition purposes while deposits from hotel guests are advances made by guests in relation to their stay in the hotel and will be applied against the guests' hotel charges upon their check-out.

Retention payables represent the portion of contractor billings which will be paid upon satisfaction by the contractors of the conditions specified in the contracts or until the defects have been corrected.

Reservation payables pertain to cash paid by the buyers of condominium units for the reservation of the units purchased. These shall be considered as part of the down payment on the units purchased upon execution of the contracts or income if the reservation is non-refundable and the buyer did not push through with the purchase.

Advances from condominium unit buyers pertain to the amounts received in advance from the condominium unit buyers of TSFSP, OSP, SSP and The Rise Makati for utilities, maintenance, and repairs of common areas. These will be paid to the condominium corporation of the respective projects when demanded.

Construction bonds pertain to cash deposits posted by tenants as security for any expenses or damages that may be incurred by SLPC in relation to construction activities conducted by the tenants during fit-out, as well as during renovation period of the lease. It is normally returned to the tenants within six months after completion of their construction activities.

Payable to contractors and suppliers represents progress billings from various contractors for the material and labor costs incurred to date with normal credit terms of 30 to 60 days, but may go beyond as agreed.

Deferred output VAT is the result of the difference in the application of installment method between the accounting policy of the Group and the tax regulations. It will be reclassified to output VAT payable when the collections from condominium unit buyers warrant recognition of revenue.

Payable to government agencies are expected to be settled within the next financial year.

Output VAT represents tax due and payable after deducting the corresponding input VAT.

Other accrued expenses consist of accruals for advertising and promotions, insurance, other employee related cost and other general and administrative expenses. Other current liabilities pertain mainly to taxes and insurance.

#### Note 17 - Bank loans

Bank loans as at December 31 consist of:

	2019	2018
Current portion		
Parent Company	3,553,333,333	1,833,333,333
Non-current portion		
SGCPI	1,441,294,424	2,683,027,491
Parent Company	933,333,334	1,466,666,667
	2,374,627,758	4,149,694,158
	5,927,961,091	5,983,027,491

## Movements in the bank loans as at December 31 are as follows:

	2019	2018
At January 1	5,983,027,491	8,359,472,703
Amortized debt issue cost	8,266,933	10,638,121
Proceeds from loan availment, net of unamortized debt		
issue costs	3,145,000,000	1,300,000,000
Payments	(3,208,333,333)	(3,687,083,333)
At December 31	5,927,961,091	5,983,027,491

## (a) Parent Company

On July 30, 2012, the Parent Company obtained a 10-year loan facility from a local bank amounting to P5.00 billion payable in 24 equal quarterly installments, commencing on the 17th quarter from the initial borrowing date at a fixed interest rate of 4.00% per annum for the three (3) years effective September 17, 2015.

Moreover, the loan agreement requires the Parent Company to comply with certain covenants and financial ratios until the loans are fully paid. Failure to comply with the covenants will render the full amount of loans due and demandable. As at December 31, 2019 and 2018, the Parent Company is in compliance with the covenants.

Total drawdown from the above facility amounted to P3.70 billion as at December 31, 2019 and 2018.

On April 13, 2018, the Parent Company obtained a 6-month loan from another local bank amounting to P800 million payable on October 10, 2018 at a fixed rate of 3.8% per annum, to be repriced every 30 to 180 days as agreed by the parties. On October 10, 2018, the loan was extended for three months payable on January 9, 2019 at fixed interest rate of 5.25% per annum. On January 9, 2019, the loan was extended for another six months payable on July 9, 2019. On March 26, 2019, the Parent Company paid the entire amount of the loan.

On July 31, 2018, the Parent Company obtained another 6-month loan from a local bank amounting to P500 million payable on January 31, 2019 at a fixed rate at 4.50% per annum. On January 31, 2019, the loan was extended for 6 months payable on July 31, 2019. On July 31, 2019, the Parent Company paid the entire amount of the loan.

In 2019, the Parent Company availed of the following short-term loans which are payable within a perio	$^{\mathrm{d}}$
of 12 months:	

Payment term	Starting date	Maturity date	Interest rate	Extension	Loan amount
6 months	June 14, 2019	December 11, 2019	5.75%	6 months until	
				June 30, 2020	1,000,000,000
6 months	March 28, 2019	September 24, 2019	6.00%	6 months until	
				June 30, 2020	1,100,000,000
6 months	August 1, 2019	January 28, 2020	5.40%	No extension period	125,000,000
6 months	August 14, 2019	February 10, 2020	5.30%	No extension period	170,000,000
3 months	October 7, 2019	January 6, 2020	4.75%	No extension period	250,000,000
3 months	December 11, 2019	March 10, 2020	4.15%	No extension period	500,000,000
Total					3,145,000,000

## (b) SGCPI

On April 11, 2012, SGCPI obtained a 10-year term loan facility from a local bank amounting to P10.00 billion to be used for the construction of SGCPI's hotel, serviced apartments and residential units in Fort Bonifacio, Taguig City in relation to the construction of the Hotel and Horizon Homes.

The principal amount of the loan shall be payable in 24 equal quarterly consecutive installments commencing on the 17th quarter from the initial drawdown, with the last installments in an amount sufficient to fully pay the loan. Interest shall be paid on each interest payment date for the relevant interest period based on three-month treasury bill rate as published in the Bankers Association of the Philippines Peso Bloomberg Valuation (PHP BVAL), previously Philippine Dealing System Treasury Reference Rates - 2 (PDST-R2). The interest shall be based on the higher between the PHP BVAL rate plus spread of 0.75% per annum and the Bangko Sentral ng Pilipinas (BSP) overnight borrowing rate minus spread of 0.95% per annum. The Company has the option to prepay the principal amount and to fix the interest rate. Further, the Company is required to maintain a ratio of debt to tangible net worth, not exceeding 2.5:1. As at December 31, 2019 and 2018, SGCPI is in compliance with the requirements of the loan agreement.

The loan is secured by an absolute and unconditional continuing suretyship of the sureties namely, Shangri-La Asia Limited and the Parent Company.

Subject to the negative covenants of the loan, from and after signing the loan agreement and for as long as the loan is outstanding, SGCPI, without the prior written consent of the bank, shall not declare or pay dividends to its shareholders (other than dividends payable solely in shares of its capital stock) if payment of any sum due the bank is in arrears and shall not enter into any consolidation or merger, except when in such consolidation or merger, SGCPI is the surviving entity.

On October 16, 2015, the parties executed an agreement to amend the spread rate from seventy-five basis points (0.75%) to eighty-five basis points (0.85%).

On July 27, 2016, the parties agreed to amend the commitment period of the agreement which pertains to the period from the date hereof to and including the earliest of (i) July 29, 2016, (ii) the date of the commitment is fully availed by SGCPI or (iii) the date of the commitment terminates in accordance with the terms of the amended agreement.

On September 16, 2016, the parties executed an amendment to the definition of the repayment date, repayment provision, prepayment provision and repayment schedule. SGCPI shall repay the loan in 21 quarterly consecutive installments commencing on the 20th quarter from the initial drawdown with the last installments in an amount sufficient to fully pay the loan.

In 2019, SGCPI paid P1.25 billion (2018 - P2.89 billion) prepayment to be applied to the subsequent installments.

The loan is subject to a front-end fee of 25 basis points (0.25%) of the total principal amount. The front-end fee is considered a transaction cost, which is allocated based on each drawdown and amortized using effective interest rate. Debt issue costs also include the documentary stamp tax paid by SGCPI for each drawdown. Average floating interest rates is 5.37% in 2019 (2018 - 5.40%).

Outstanding balance of SGCPI's bank loans as at December 31 consist of:

	2019	2018
Bank loan	1,450,000,000	2,700,000,000
Unamortized debt issue costs	(8,705,576)	(16,972,509)
	1,441,294,424	2,683,027,491

### (c) SLPC

On November 5, 2012, SLPC obtained an unsecured 10-year loan facility from a local bank amounting to P1.40 billion to partially finance its mall redevelopment program with interest based on the higher between the PDST-R2 rate plus 0.75% per annum and the BSP overnight borrowing rate. The loan is payable in 24 equal quarterly installments commencing on the 17th quarter from the initial borrowing date and is subject debt-to-equity ratio of 3:1 and debt coverage ratio of not lower than 1.2. As at December 31, 2017, SLPC is in compliance with the covenants. On January 15, 2018, SLPC paid in full the remaining balance of the loan amounting to P262,500,000.

The repayments of the above bank loans are scheduled as follows:

Year	2019	2018
2019	-	1,833,333,333
2020	3,553,333,333	1,023,333,334
2021	1,983,333,333	2,200,000,000
2022	400,000,001	943,333,333
	5,936,666,667	6,000,000,000
Unamortized debt issue cost	(8,705,576)	(16,972,509)
	5,927,961,091	5,983,027,491

Total interest expense arising from these loans as shown in the consolidated statements of total comprehensive income in 2019 amounted to P235,099,374 (2018 - P328,088,762; 2017 - P311,826,531) (Note 24). Total capitalized interest amounted to P110,125,555 in 2019 and was included as part of real estate development projects (Note 11). In 2018 and 2017, capitalized interest was included as part of construction in-progress under properties held for sale account and amounted to P2,852,850 and P70,872,328, respectively (Note 6). The capitalization rate used to determine the amount of capitalized interest which is the weighted average interest rate applicable to the Group's general borrowings during the year is 5.23% (2018 - 3.80%).

Movements in the accrued interest recorded as accrued expenses under accounts payable and other current liabilities account for the years ended December 31 are as follows:

	Notes	2019	2018
At January 1		34,220,895	28,922,784
Interest expense	24	235,099,374	328,088,762
Payments		(246,490,921)	(322,790,651)
At December 31	16	22,829,348	34,220,895

# Note 18 - Deposits from tenants

This account represents non-interest bearing rental deposits from tenants equivalent to three to six months' rent which have been discounted using applicable market rates and are carried at amortized cost. The difference between the discounted and face value of the deposits is recognized as deferred lease income. Deferred lease income is amortized on a straight-line basis over the lease term and is recognized in profit or loss as additional rent income. Interest is accreted on the deposits from tenants using the effective interest rate method and is recognized as additional interest expense in profit or loss.

Details of deposits from tenants as at December 31 and their movements during the years are as follows:

2019	2018
1,171,904,922	1,161,131,772
44,023,071	10,773,150
1,215,927,993	1,171,904,922
(97,183,062)	(77,921,439)
1,118,744,931	1,093,983,483
391,914,057	503,462,220
726,830,874	590,521,263
1,118,744,931	1,093,983,483
	1,171,904,922 44,023,071 1,215,927,993 (97,183,062) 1,118,744,931 391,914,057 726,830,874

Details of deferred lease income as at December 31 and its movement during the years are as follows:

	2019	2018
At January 1	74,862,625	54,348,866
Additions	55,479,274	50,948,611
Amortization	(37,686,644)	(30,434,852)
At December 31	92,655,255	74,862,625
Current portion	45,303,980	33,518,985
Non-current portion	47,351,275	41,343,640
•	92,655,255	74,862,625

The movements in the day 1 difference on deposits from tenants are as follows:

	Note	2019	2018
At January 1		77,921,439	56,864,751
Additions		55,560,707	50,867,175
Accretion as interest expense	24	(36,299,084)	(29,810,487)
At December 31		97,183,062	77,921,439

# Note 19 - Equity

(a) Share capital, share premium and treasury shares

Details of share capital and share premium at December 31, 2019 and 2018 are as follows:

	2019	2018
Authorized, at P1 par value per share		
Common shares	8,000,000,000	8,000,000,000
Issued and outstanding shares		
Common shares	4,764,058,982	4,764,058,982
Share premium	834,439,607	834,439,607
	5,598,498,589	5,598,498,589

In 2007, the Board of Directors approved the redemption of 2,140,645 common shares at redemption price of P3.20 per share or a total of P6,850,064 and the amount is presented as treasury shares in the consolidated statements of financial position.

The Parent Company is listed in the Philippine Stock Exchange. It was registered on June 13, 1991 with total listed shares of 4,764,058,982 which was initially issued at P1.18 per share. As at December 31, 2019, the Parent Company has 5,200 shareholders (2018 - 5,231). The details of the Parent Company's shareholders are disclosed in the annual report.

### (b) Retained earnings

As at December 31, 2019, total unrestricted retained earnings amounted to P23,730,735,571 (2018 - P21,510,450,262). Further, SGCPI is restricted to declare or pay dividends for as long as its bank loan is outstanding (Note 17).

## Note 20 - Dividends

The Parent Company annually declares dividends in compliance with SEC Memorandum Circular No. 11, Series of 2008. The Parent Company's Board of Directors approved the declaration of the following cash dividends for the years ended December 31:

	Shareholders of record			
Date of declaration	as at	Payment date	Total	Per share
2019		<del>-</del>		
March 6	March 21	March 31	502,382,385	0.106
September 16	September 30	October 20	333,334,164	0.070
	-		835,716,549	0.176
2018				
March 15	March 31	April 14	597,352,351	0.126
September 4	September 19	September 28	333,334,235	0.070
			930,686,586	0.196
2017				
March 4	March 31	April 7	452,382,432	0.095
September 14	September 15	September 22	333,334,424	0.070
•		•	785,716,856	0.165

At December 31, 2019, dividends payable presented in the consolidated statements of financial position pertains to dividends declared by Parent company attributable to its shareholders amounting to P47,544,516 (2018 - P42,683,650).

Movements in dividends payable as at December 31 are as follows:

	2019	2018
At January 1	42,683,650	37,515,266
Declaration	835,716,549	930,686,586
Payment	(830,855,683)	(925,518,202)
At December 31	47,544,516	42,683,650

Cash dividends paid during 2019 include payment to non-controlling shareholders of subsidiaries amounting to P398,468,000 at P1,101.09 per share (2018 - P317,576,000 at P877.56 per share).

#### Note 21 - Cost of sales and services

The components of cost of sales and services for the years ended December 31 are as follows:

## (a) Cost of condominium sales

	Note	2019	2018	2017
TRDCI		2,478,688,308	2,176,060,519	1,178,857,604
SPDI		114,111,369	445,522,327	1,174,023,598
SWWPI		86,923,224	-	-
SPRC		14,747,980	38,888,875	113,615,246
Parent Company		2,467,500	32,741,079	3,525,278
SGCPI		-	307,348,423	2,256,804,942
	6	2,696,938,381	3,000,561,223	4,726,826,668

# (b) Cost of rental and cinema

	Note	2019	2018	2017
Share in common expenses		81,948,325	157,116,180	138,121,538
Real property taxes		55,170,244	54,233,974	56,139,021
Insurance		32,274,498	35,061,183	28,677,874
	10	169,393,067	246,411,337	222,938,433

SLPC collects reimbursements from tenants, based on either a fixed amount or a percentage of sales, for the tenants' share in the costs of utilities, janitorial, security and other expenses on common areas shared by SLPC and the tenants. SLPC also collects reimbursements from the tenants for the actual costs of utilities, repairs and maintenance used by the tenants in their leased areas. The remaining expenses pertain to SLPC's share in the common expenses and accordingly reported as cost of rental.

The details of SLPC's share in common expenses for the years ended December 31 are as follows:

	2019	2018	2017
Light, power and water	302,726,076	331,145,179	299,675,199
Janitorial, security and other services	127,323,539	123,630,177	113,180,741
Repairs and maintenance	81,699,444	96,294,917	82,560,170
Advertising and promotions	80,387,787	98,928,837	103,393,284
Tenants' reimbursements	(510,188,521)	(492,882,930)	(460,687,856)
	81,948,325	157,116,180	138,121,538

PIC Q&A 2018-12-H, 'PFRS 15 implementation issues affecting the real estate industry', includes guidance on accounting for CUSA charges. This clarifies that for CUSA and air conditioning charges to tenants, the entities have the ability to direct the use of and obtain substantially all the remaining benefits from the services being delivered to the tenants. The entities can direct the maintenance, security, and cleaning and administrative services and therefore, in this arrangement, the entity is a principal and should recognize revenue. The Group decided to avail the relief issued by the Securities and Exchange Commission (SEC) per Memorandum Circular No. 3-2019 dated February 8, 2019. The SEC provided relief to the real estate industry by deferring the application of the provisions of PIC Q&A 2018-12-H for a period of three (3) years until January 1, 2021.

# (c) Cost of hotel operation

	Note	2019	2018	2017
Depreciation and amortization	13	1,080,551,476	1,018,566,761	877,576,286
Food and beverages		868,269,534	777,858,510	702,255,544
Utilities and maintenance		576,004,362	552,319,514	435,889,082
Staff costs		404,965,369	306,053,518	298,958,752
Supplies		74,127,536	84,914,282	83,000,022
Property tax and insurance		61,712,182	21,569,070	141,399,639
Others		147,045,883	262,501,940	119,569,335
		3,212,676,342	3,023,783,595	2,658,648,660

Others consist of telephone, fax, postage, subscriptions, publications, and hotel guest entertainment expenditures.

# Note 22 - Staff costs

The components of staff costs for the years ended December 31 are as follows:

	Note	2019	2018	2017
Salaries and wages		336,984,080	350,786,180	355,720,814
Employee benefits		95,230,365	37,893,004	30,933,766
Retirement benefits costs	25	37,765,035	38,161,019	50,603,555
Others		6,426,086	11,431,113	5,147,749
		476,405,566	438,271,316	442,405,884

# Note 23 - Other general and administrative expenses

The components of other general and administrative expenses for the years ended December 31 are as follows:

	Note	2019	2018	2017
Advertising		254,459,024	303,477,508	240,698,352
Professional fees		115,578,591	80,019,619	82,012,183
Janitorial, security and other services		53,786,048	41,819,127	35,967,775
Utilities		19,541,547	11,225,895	10,831,838
Telephone and communication		9,088,133	10,287,372	8,754,609
Transportation and travel		7,070,500	8,778,876	7,265,705
Supplies		6,627,181	6,618,499	6,298,191
Carpark expense		6,542,921	6,922,036	5,986,656
Repairs and maintenance		6,329,398	5,505,975	10,538,294
Donations		5,561,050	-	-
Commission		5,382,606	16,262,426	82,173,030
Condominium dues		3,624,674	6,045,247	39,352,930
Systems license and maintenance		2,835,871	4,125,172	3,466,343
Membership fees and dues		2,734,398	2,920,660	4,289,307
Entertainment, amusement and				
recreation		2,553,423	3,054,537	2,940,185
Gas and oil		2,252,390	2,400,056	1,846,199
Reproduction charges		1,459,364	1,083,391	1,346,298
Rent		566,126	35,614	198,404
Provision for doubtful accounts	5	170,000	8,468,256	5,178,302
Others		8,693,418	1,079,721	21,627,380
		514,856,663	520,129,987	570,771,981

Taxes and licenses pertaining to payment for business taxes, permits, real property taxes, documentary stamp taxes and other taxes incurred by the Group in 2019 amounted to P209,219,439 (2018 - P203,394,325; 2017 - P188,172,168) as shown in the consolidated statements of total comprehensive income.

# Note 24 - Interest income, other income, and interest expense and bank charges

The components of interest income, other income, and interest expense and bank charges for the years ended December 31 are as follows:

## (a) Interest income

	Notes	2019	2018	2017
Interest on:				
Installment contracts receivable	5	166,691,384	127,423,327	157,547,654
Cash in banks and cash equivalents	3	44,045,396	54,619,455	69,013,073
Overdue accounts from tenants		6,849,275	8,786,113	4,491,352
		217,586,055	190,828,895	231,052,079

# (b) Other income, net

	Note	2019	2018	2017
Dividend income		55,541,739	48,440,301	63,880,748
Administration and management fee		24,785,736	18,732,446	19,797,621
Customer lounge fee		10,278,244	9,622,218	8,759,036
Income (loss) from ancillary services		8,057,028	(2,321,947)	1,994,036
Signage fee		7,180,687	6,681,893	6,003,850
Income from back-out buyers		6,908,319	4,867,806	21,334,380
Forfeited security deposits		6,830,401	1,943,015	2,876,637
Banner income		3,679,732	4,258,589	5,137,357
Gain (loss) on sale of property and				
equipment		1,050,728	206,643,583	(986,953)
Other rental revenue		312,500	2,500,000	2,130,089
Income from reversal of liabilities			63,974,806	-
Service revenue		-	4,438,616	2,820,524
Interest and penalty for overdue accounts		-	869,109	5,053,570
Gain (loss) on fair value adjustments of				
financial assets at fair value through				
profit or loss	4	(5,145,472)	(4,545,027)	14,247,505
Others		10,659,494	8,451,105	12,275,209
		130,139,136	374,556,513	165,323,609

In November 2018, SGCPI sold its land rights with carrying value of P62,916,000 to a third party for a total consideration of P269,640,000 resulting in a gain of P206,724,000.

## (c) Interest expense and bank charges

	Notes	2019	2018	2017
Interest expense on bank loans	17	235,099,374	328,088,762	311,826,531
Accretion of deposits from tenants	18	36,299,084	29,810,487	19,159,774
Bank charges		940,453	842,460	976,558
		272,338,911	358,741,709	331,962,863

### Note 25 - Accrued employee benefits

Accrued employee benefits as at December 31 consist of:

	2019	2018
Retirement benefit liability	55,093,909	57,052,807
Other employee benefits	51,116	-
	55,145,025	57,052,807

Accrued employee benefits pertain to liability for retirement, leaves and other related benefits expected to be settled more than 12 months after the end of the annual reporting period. Retirement asset amounting to P25,320,182 as at December 31, 2019 (2018 - 13,009,973) (Note 15), is not offset against the retirement liability as the retirement liabilities within the Group shall be settled on a per entity basis.

## Retirement benefits

The Group, except SGCPI, has a funded, non-contributory defined benefit plan, providing death, disability and retirement benefits for all of its regular employees. In 2016, SGCPI started an unfunded non-contributory defined benefit plan. Under the plan, the normal retirement age is 60 years old and completion of at least five (5) years of service. Normal retirement benefit consists of a lump sum benefit equivalent to 100% of the employee's final pay for every year of service.

The funds are administered by a trustee bank under the supervision of the Group's Treasury Department. The trustee bank is responsible for investment of the assets. The Pension Fund Board defines the investment strategy as often as necessary, at least annually, especially in the case of significant market developments or changes to the structure of the plan participants. When defining the investment strategy, it takes into account the plans objectives, benefit obligations and risk capacity. The investment strategy is defined in the form of a long-term target structure (investment policy).

The retirement benefit obligation is determined using the "Projected Unit Credit Cost" (PUC) method. Under the PUC method, the annual normal cost for the portion of the retirement is determined as the amount necessary to provide for the portion of the retirement benefit accruing during the year.

The actuarial present value of the retirement benefit obligation under the plan is measured in terms of actuarial assumptions for discount rate, salary increases, retirement rates and mortality using the 2017 Philippine Intercompany Mortality Table. The discount rates used is a single weighted average rate based on rates as published in the Bankers Association of the PHP BVAL at various tenors as at December 7, 2018. Rate for intermediate durations were interpolated. The rates were then weighted by the expected benefit payments at those durations to arrive at the single weighted average discount rate.

The plan typically exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

## (a) Investment risk

The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Currently the plan's investments are in the form of investments in debt instruments and cash deposits to universal and commercial banks. Due to the long-term nature of the plan liabilities, the board of the pension fund considers it appropriate that a reasonable portion of the plan assets is invested in investments in debt instruments and cash deposits to universal and commercial banks.

#### (b) Interest rate risk

The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using single weighted average rate based on PHP-BVAL rates. A decrease in rate will increase the defined benefit obligation. Hence, the present value of defined benefit obligation is directly affected by the discount rate to be applied by the Group. However, the Group believes that due to the long-term nature of the pension benefit obligation, the investment holdings of the plan is an appropriate element of the Group's long-term strategy to manage the plan efficiently.

### (c) Longevity risk

The present value of the defined benefit plan obligation is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the retirement benefit obligation

# (d) Salary risk

The present value of the defined benefit plan obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the retirement benefit obligation.

The management performed an Asset-Liability Matching Study (ALM) annually. The overall investment policy and strategy of the Group's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay retirement benefits as they fall due while also mitigating the various risk of the plans. The Group's current strategic investment strategy mainly consists of treasury notes and bonds accounting for 99% of the total plan assets.

The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Group has not changed the processes used to manage its risks from previous periods. The Group does not use derivatives to manage its risk. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets.

The Group's plan assets consist of investment in debt instruments and cash in banks. The Group believes that equities offer the best returns over the long term with an acceptable level of risk.

The actuarial valuation of the Group's retirement plan was performed by an independent actuary. The latest actuarial valuation report prepared was for the year ended December 31, 2019. The principal assumptions used by the actuary for the years ended December 31 are as follows:

	2019	2018	2017
Discount rate	4.63%	7.29%	5.29%
Salary increase rate	4.00%	5.00%	3.50%

The amounts of retirement benefit assets and liabilities recognized in the consolidated statements of financial position as part of "other non-current assets" and "accrued employee benefits" are as follows:

### Retirement asset

	2019	2018
Fair value of plan assets	225,085,966	170,907,700
Present value of defined benefit obligations	(199,765,784)	(157,897,727)
Retirement benefit asset	25,320,182	13,009,973

# Retirement liability

	2019	2018
Fair value of plan assets	-	10,052,475
Present value of defined benefit obligations	(55,093,909)	(67,105,282)
Retirement benefit liability	(55,093,909)	(57,052,807)

The summary of the total defined benefit obligation and fair value of plan assets as at December 31 are as follows:

	2019	2018
Fair value of plan assets	225,085,966	180,960,175
Present value of defined benefit obligations	(254,859,693)	(225,003,009)
-	(29,773,727)	(44,042,834)

The movements in the remeasurement loss on defined benefit obligations under other components of other comprehensive income as shown in the consolidated statements of financial position for the years ended December 31 are as follows:

	2019	2018
At January 1	(37,974,006)	(34,982,361)
Remeasurements	(4,236,297)	(2,991,645)
	(42,210,303)	(37,974,006)
Deferred income tax effect	16,768,658	15,331,403
At December 31	(25,441,645)	(22,642,603)

Below is the analysis of the movements in the retirement benefit obligation for the years ended December 31:

	2019	2018
At January 1	44,042,834	31,515,005
Remeasurement loss	4,236,297	2,991,645
Contributions	(52,653,236)	(8,409,257)
Benefits paid directly by the Group	(3,617,203)	(20,215,578)
Retirement benefits costs	37,765,035	38,161,019
At December 31	29,773,727	44,042,834

The components of retirement expense for the years ended December 31 recognized in the consolidated statements of total comprehensive income included under staff costs account are as follows:

	Note	2019	2018	2017
Current service cost		35,890,449	27,435,307	48,655,224
Net interest cost		1,862,546	1,004,454	1,948,331
Net acquired obligation arising from				
transfer of employees		12,040	9,721,258	-
Pension expense	22	37,765,035	38,161,019	50,603,555

Changes in the present value of the defined benefit obligation for the years ended December 31 are as follows:

	2019	2018
At January 1	225,003,009	206,006,362
Interest cost	13,562,194	10,108,697
Current service cost	35,890,449	27,435,307
Net acquired obligation	12,040	9,721,258
Benefits paid directly by the Group	(26,688,536)	(20,215,578)
Remeasurement losses (gains) from:		
Experience adjustments	(7,311,570)	(9,333,281)
Change in demographic assumptions	7,328,441	(981,534)
Changes in financial assumptions	7,063,666	2,261,778
At December 31	254,859,693	225,003,009

Changes in the fair value of plan assets for the years ended December 31 are as follows:

	2019	2018
At January 1	180,960,175	174,491,357
Interest income	11,699,649	9,104,243
Losses on return on plan assets	2,844,241	(11,044,682)
Benefits paid from plan assets	(23,071,335)	-
Contributions	52,653,236	8,409,257
At December 31	225,085,966	180,960,175

Apart from the benefit payments to certain qualified employees advanced by the Group and the contributions to the plan as presented above for the years ended December 31, 2019 and 2018, the Group had no other transactions with the plan.

Details of plan assets as at December 31 are as follows:

	2019	2018
Cash in banks	9,853,357	246,603
Money market deposits and trust funds	23,264,717	-
Investments in equity	24,892,867	-
Investments in debt instruments:		
Treasury notes and bonds	136,661,982	172,035,531
Corporate notes and bonds	30,413,043	8,678,041
·	225,085,966	180,960,175

At December 31, 2019 and 2018, the Group's plan assets (investment in debt instruments) are determined by reference to published price quotations in an active market (classified as Level 1 in the fair value hierarchy).

There are no plan assets invested in related parties as at and for the years ended December 31, 2019 and 2018.

Expected contribution to post-employment benefit plans for the year ending December 31, 2020 amounts to P10,337,930.

The weighted average duration of the defined benefit obligation is 13.34 years.

Expected maturity analysis of undiscounted retirement benefits as at December 31 are as follows:

	2019	2018
Less than a year	51,032,384	60,803,691
Between one and five years	111,053,595	104,928,605
Over five years	840,841,184	836,652,689
•	1,002,927,163	1,002,384,985

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions are as follows:

	Increase (decrease)	
	2019	2018
Discount rate		
Increase by 1.0%	(110,173,475)	(95,608,619)
Decrease by 1.0%	120,701,943	104,372,543
Salary increase rate		
Increase by 1.0%	121,847,005	105,739,305
Decrease by 1.0%	(110,165,758)	(95,538,437)

The sensitivity is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement benefit asset/liability recognized within the consolidated statements of financial position. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to prior years.

# Note 26 - Income taxes

Provision for income tax for the years ended December 31 follows:

	2019	2018	2017
Current	934,619,771	834,860,295	1,225,631,267
Deferred	120,190,611	436,901,272	238,897,969
	1.054.810.382	1.271.761.567	1,464,529,236

## Deferred income tax assets and liabilities as at December 31 consist of:

	2019	2018
Deferred income tax assets:		
Difference in profit, installment method versus POC method	175,403,239	87,888,722
Advance rentals	115,174,430	95,779,487
Accrued expenses	58,003,879	66,682,834
Deferred lease income	56,415,939	49,714,885
Net operating loss carry over (NOLCO)	43,974,721	9,254,918
Guest and banquets prepayments and deposits	31,882,983	23,372,681
Deferred income:		
Health club membership fees		13,884,520
Sale of gift certificates	-	2,269,759
Accrued employee benefits	19,321,592	11,681,663
Unamortized funded past service cost	12,381,686	10,355,625
Minimum corporate income tax (MCIT)	7,139,458	4,289,203
Allowance for doubtful accounts	4,349,528	4,662,700
Unrealized loss on foreign exchange	502,183	47,442
Others	6,356,675	18,253,967
	530,906,313	398,138,406
Deferred income tax liabilities:	,,	
Unrealized increase in fair value of investment property	(7,767,798,971)	(7,707,311,298
Difference in profit, installment method versus POC method	(301,700,661)	(109,554,403
Unrealized increase in fair value of FVOCI	(46,669,624)	(42,922,238
Difference between cost of condominium sales for accounting	(,,	, -,,
and income tax purposes	(40,321,738)	(38,013,120
Day 1 difference on deposits from tenants	(7,480,744)	(23,376,432
Rent income per PFRS 16/Philippine Accounting Standard 17	(4,297,419)	(5,454,296
Unrealized gain on foreign exchange	(867,416)	(4,941,751
Others	(58,091)	.,,
	(8,169,194,664)	(7,931,573,538
Net deferred income tax liabilities	(7,638,288,351)	(7,533,435,132

The deferred income tax assets and liabilities balances presented in the consolidated statements of financial position are netted on a per entity basis as follows:

	2019	2018
Deferred income tax assets	226,921,795	122,428,897
Deferred income tax liabilities	(7,865,210,146)	(7,655,864,029)
	(7,638,288,351)	(7,533,435,132)

Realization of the future tax benefits related to the deferred income tax assets is dependent on many factors, including the Group's ability to generate taxable income in the future. The Group's management believes that the related future tax benefit will be realized.

Movements in net deferred income tax liabilities for the years ended December 31 are as follows:

	Note	2019	2018
At January 1		(7,533,435,132)	(7,025,919,725)
Charged to profit or loss		(115,901,408)	(432,190,373)
Credited to other comprehensive income		15,337,392	3,467,195
Acquisition from additional interest in a previously held			
associate	8	-	(74,081,330)
Expired MCIT		(4,289,203)	(4,710,899)
At December 31		(7,638,288,351)	(7,533,435,132)

The details of unrecognized deferred income tax assets on NOLCO at December 31 which could be carried over as deductible expense from taxable income for three (3) consecutive years following the year of incurrence are as follows:

Year incurred	Year of expiry	2019	2018
2016	2019	-	82,401,766
2017	2020	153,931,742	153,931,742
2018	2021	95,193,368	95,193,368
2019	2022	16,799,864	-
		265,924,974	331,526,876
Unrecognized DTA at 30%		79,777492	99,458,063

In compliance with the Tax Reform Act of 1997, the Group is required to pay the MCIT or the normal income tax, whichever is higher. The Group's MCIT incurred in 2016 amounting to P4,289,203 expired in 2019.

A reconciliation of the provision for income tax computed at the statutory income tax rate and the actual provision for income tax as shown in the consolidated statements of total comprehensive income for the years ended December 31 follows:

2019	2212	
2019	2018	2017
1,342,973,723	1,449,712,807	1,705,383,360
22,368,423	101,296,815	46,179,523
11,113,270	-	-
4,289,203	4,710,899	4,051,127
1,092,499	-	-
(13,213,618)	(15,985,699)	(19,343,758)
(16,662,522)	(14,266,769)	(19,164,224)
(30,371,134)	-	1,229,996
(57,516,306)	(86,486,328)	(91,237,537)
(209, 263, 156)	(167,220,158)	(162,569,251)
1,054,810,382	1,271,761,567	1,464,529,236
	22,368,423 11,113,270 4,289,203 1,092,499 (13,213,618) (16,662,522) (30,371,134) (57,516,306) (209,263,156)	22,368,423 101,296,815 11,113,270 - 4,289,203 4,710,899 1,092,499 - (13,213,618) (15,985,699) (16,662,522) (14,266,769) (30,371,134) - (57,516,306) (86,486,328) (209,263,156) (167,220,158)

In 2019 and 2018, the Group used the itemized deduction in claiming deductions against the taxable income except for KSA and SLPC which availed of the optional standard deduction for the computation of their taxable income.

Income tax payable amounted to P250,763,007 as at December 31, 2019 (2018 - P162,066,422).

## Note 27 - Basic and diluted earnings per share

The computation of basic and diluted earnings per share for the years ended December 31 are as follows:

	2019	2018	2017
Net income attributable to the shareholders of Parent Company Divided by the average number of outstanding	3,056,001,858	3,012,328,190	3,346,165,957
common shares	4,761,918,337	4,761,918,337	4,761,918,337
Basic and diluted earnings per share	0.642	0.633	0.703

Basic and diluted earnings per share are the same due to the absence of dilutive potential common shares.

# Note 28 - Related party transactions

In the normal course of business, the Group transacts with companies which are considered related parties. Enterprises and individuals that directly, or indirectly through one or more intermediaries, control, or are controlled by, or under common control with the Group, including holding companies, subsidiaries and fellow subsidiaries are related parties of the Group.

The transactions and outstanding balances of the Group with its related parties as at and for the years ended December 31 are as follows:

	20	19	20	)18	
		Outstanding		Outstanding	
		receivables		receivables	
	Transactions	(payables)	Transactions	(payables)	Terms and conditions
Entities under common control					
Rental income (a) (Note 5)	111,637,754	30,792,405	106,548,187	29,636,433	Balances to be collected in cash and are due generally within 30 to 60 days. These are non-interest bearing and are not covered by any security.
Entities under common control					
Management services (b)	24,026,178	20,770,331	12,587,445	18,720,051	Balances to be collected in
Reimbursed expenses (f) Affiliates share in Group's	6,765,396	713,542	1,058,071	3,368,327	cash and are due generally within 30 days. These are
expenses (g)	303,029,278	262,057,715	88,821,365	180,913,578	non-interest bearing and are not covered by any security.
Advances (d)		1,144,187,553	116,581,067	1,144,187,554	Balances to be collected in cash and are generally due on demand. These are non interest bearing and are not covered by any security.
Associates					
Associates' share in					
Group's expenses (g)	4,580	5,704,579	•	•	Balances to be collected in cash and are due generally within 30 days. These are non-interest bearing and are not covered by any security.
Total (Note 5)		1,464,226,125		1,347,189,510	
Entities under common control Marketing, management					
and other service fees (c)	99,841,412	(18,971,458)	83,424,313	(16,000,538)	Balances are to be settled in
Condominium dues (e) Group's share in affiliates'	4,935,070	(1,570,482)	6,045,247	(1,840,926)	cash and are generally due within 30 days. These
expenses (g)	218,423,222	(79,947,313)	270,445,196	(95,509,311)	balances are non-interest bearing and not covered by any guarantee.
Total (Note 16)		(100,489,253)		(113,350,775)	

All individual material related party transactions shall be approved by at least two-thirds (2/3) vote of the Board, with at least a majority of the independent directors voting to approve the material related party transaction. In case that a majority of the independent directors' vote is not secured, the material related party transaction may be ratified by the vote of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock of SPI. For aggregate related party transactions within a twelve-month period which breaches the materiality threshold of ten percent (10%) of the Group's total assets, the same board approval shall be required for the transaction that meets and exceeds the materiality threshold covering the same related party.

Directors with personal interest in the transaction shall abstain from participating in the discussions and voting the same. In case they refuse to abstain, their attendance shall not be counted for the purposes of assessing the quorum and their votes shall not be counted for purposes of determining approval.

Significant agreements with related parties are as follows:

- (a) A portion of the Parent Company's land is being leased by ESHRI, where the EDSA Shangri-La, Manila is located. The lease is for a period of 25 years commencing on August 28, 1992 and renewable for another 25 years at the option of ESHRI. On August 16, 2017, the agreement was renewed by ESHRI for another 25 years until August 27, 2042. Rental revenue is based on a fixed percentage of ESHRI's room, food and beverage, dry goods and other service revenue.
- (b) Shang Property Management Services, Inc. (SPMSI) provides management services to The Enterprise Center Condominium Corporation (TECCC), St. Francis Shangri-La Place Condominium Corporation (TSFSPCC), The Shang Grand Tower Condominium Corporation (TSGTCC), and One Shangri-La Place Condominium Corporation (OSPCC) for a minimum period of five years starting January 7, 2009, April 1, 2010, January 7, 2007, and January 1, 2015 respectively. As consideration, SPMSI shall receive from TECCC, TSGTCC, TSFSPCC, and OSPCC monthly management fees of P400,000, P100,000, P100,000, and P250,000 respectively, inclusive of VAT, with an escalation rate of 5% to 10% per annum. The parties mutually agreed to renew the agreements for another 5 years upon expiration.
- (c) SGCPI entered into a License Agreement with Shangri-La International Hotel Management Limited (SLIM-BV) for the use of intellectual property rights over Shangri-La's policies, practices, procedures, and guidelines affecting different aspects of operations of the Shangri-La chain of hotels. The agreement is for 10 years commencing on the opening date, March 1, 2016, renewable for another 10 years at the option of either parties and subject to the approval of the Bureau of Patents, Trademarks and Technology Transfer of the Republic of the Philippines and applicable authorities. In consideration for such access and use, SGCPI pays SLIM-BV license fees and royalties. License fees paid to SLIM-BV is equivalent to \$100 per annum while royalties are computed at 3% of the gross operating revenue per annum payable within 30 days of the end of each calendar month.

Further, in 2016, SGCPI entered into a Marketing and Reservations Agreement with SLIM, whereby the related party acting as an independent contractor of SGCPI provides marketing, communication, and reservation services to promote SGCPI. The agreement is for a period of 10 years commencing on the opening date, March 1, 2016, renewable for another 10 years at the option of either parties. Under this agreement, SLIM shall act solely for the account of SGCPI and all expenses incurred shall be borne by SGCPI. As a consideration for such services, SGCPI shall pay SLIM an amount equivalent to certain percentage of gross operating revenue. Other charges includes reservation, loyalty program, communication, and other group services fees. Basis of these various charges are stipulated in the Marketing and Reservations Agreement.

(d) In 2018, Classic Elite Holdings Limited, an affiliate with common key management personnel, advanced cash amounting to P116,581,067 from the Parent Company. The amount is still outstanding as at December 31, 2019.

- (e) Condominium dues charged by TSFSPCC and TECCC to Parent Company, KSA, SPDI and SPRC.
- (f) Reimbursement of expenses paid for by SLPC for ESHRI.
- (g) Certain other general and administrative expenses are initially paid for by the Group/affiliate and are subsequently reimbursed by the affiliate/Group to whom such payment was intended for.
- (h) There were no write-offs or provisions made in relation to related party transactions and balances not eliminated during consolidation as at and for the years ended December 31, 2019 and 2018. The following are the significant transactions and outstanding balances with retirement fund and key management personnel as at and for the years ended December 31:

	201	9	201	8	
	Transactions	Outstanding receivables	Transactions	Outstanding receivables	Terms and conditions
Retirement fund	Transactions	(payables)	Transactions	(payables)	Terms and conditions
Contributions	52,653,236		8,409,257		Refer to Note 25.
Advances	3,617,203	:	20,050,884	:	Balance pertains to claims from the retirement fund in relation to employee benefits directly paid by the Group.
Key management personnel: Salaries and other short-					
term employee benefits	81,719,074		72,207,752		Salaries and wages are settled in cash at the period incurred. Other short-term benefits are payable within the current year. There were no stock options or other long-term benefits provided in 2019 and 2018 nor amounts due to/from key management personnel as at December 31, 2019 and 2018.
Post-employment benefits	4,723,941		5,164,530	72,810,506	Refer to Note 25.

The following related party transactions and balances were eliminated for the purpose of preparing the consolidated financial statements:

	2019	2018	2017
At December 31	2013	2010	2017
Trade and other receivables	12,770,869,974	13,233,821,564	7,254,525,338
Accounts payable and other current liabilities	12,770,869,974	13,233,821,564	7,254,525,338
For the years ended December 31			
Rental revenue	244,211,871	231,848,991	231,886,155
Cost of sales and services	4,722,185	4,422,383	4,159,029
Operating expenses	656,566,364	246,196,006	296,249,041
Other income	273,682,354	101,211,223	60,204,857
Dividend income	2,281,532,000	1,389,324,000	1,900,570,000

The Parent Company and its subsidiaries are a party to significant agreements with related parties as follows:

(a) A portion of the Parent Company's land where the Shangri-La Plaza Mall is located is being leased to SLPC. The lease is for a period of 25 years from January 6, 1993. On September 19, 2017, the agreement was renewed by both parties to another 5 years until January 6, 2023. Rental revenue is based on a certain percentage of SLPC's annual rental revenue from mall operations and certain percentage of the carpark's net income. Rental revenue of the Parent Company amounted to P113,770,373 in 2019 (2018 - P118,077,382; 2017 - P119,550,361).

- (b) On January 16, 2002, SPSI entered into an agreement with the Company and SLPC. Under the agreement, SPSI is granted limited usufructuary rights over the parking spaces of the Company and SLPC for a consideration equivalent to 95% of SPSI's gross revenue less direct and indirect expenses relating to the Company's parking facilities. The agreement is effective until December 31, 2002 and shall be renewed automatically on a yearly basis.
- (c) SPRC and SLPC entered into a memorandum of agreement whereby SLPC will operate the mall establishment and constitute it as the East Wing of the Shangri-La Plaza Mall. The lease is for a period of five years from October 1, 2013 and renewable upon mutual agreement by the parties. Rental revenue is based on a certain percentage of SLPC's annual rental revenue from the mall operations plus a certain percentage of the carpark's net income.
- (d) On January 1, 2009, SPSI entered into an agreement with KSA, whereby SPSI is to manage and operate the parking slots of KSA. The agreement is renewable upon mutual agreement by the parties. The monthly gross parking revenue, less applicable VAT, is shared between KSA and SPSI at 75% and 25%, respectively.
- (e) KSA entered into a management agreement with SPMSI for a monthly fee of P150,000 with 10% annual escalation for a period of five years starting March 2008. The parties agreed mutually on the renewal of the agreement. SPMSI shall provide on-site property leasing management including head office support services and periodic audit to ensure compliance with international practices; perform staff recruitment, training and performance evaluation; and perform financial management, including billing and collection and budget provisioning.
- (f) In 2011, SPDI obtained an unsecured, noninterest-bearing loan from SHIL amounting to P2,317,500,000, payable on demand. As at December 31, 2019 and 2018, this loan is still outstanding.
- (g) The Parent Company's dividend income from declarations of its subsidiaries are as follows:

2019	2018	2017
931,532,000	742,424,000	560,320,000
725,000,000	525,000,000	425,000,000
70,000,000	50,000,000	700,000,000
35,000,000	51,000,000	-
13,000,000	13,000,000	10,350,000
7,000,000	7,900,000	4,900,000
-	-	100,000,000
-	-	100,000,000
1,781,532,000	1,389,324,000	1,900,570,000
	931,532,000 725,000,000 70,000,000 35,000,000 13,000,000 7,000,000	931,532,000 742,424,000 725,000,000 525,000,000 70,000,000 50,000,000 35,000,000 51,000,000 13,000,000 13,000,000 7,000,000 7,900,000

In 2019, TRDCI declared cash dividends amounting to P500,000,000 to KRC. The declaration was eliminated under both dividend income in the statement of comprehensive income and dividends declared under equity in the statement of financial position. There were no similar transactions by TRDCI in 2018 and 2017.

The receivables and payables between related parties, except for those arising from reimbursement of expenses and those that are unsecured and noninterest-bearing which are payable on demand, have normal credit terms of 30 to 90 days, but may go beyond as agreed.

### Note 29 - Contingencies

On July 14, 1993, a complaint was initially filed before the Regional Trial Court (RTC) - Pasig by the principal contractor of the Shangri-La Plaza Mall against the Parent Company and the Board for the recovery of the balance of alleged unpaid construction work, compensatory and moral damages, legal fees and litigation costs totaling about P122,000,000, exclusive of interest. In the answer ex abundante ad cautelam, as a counterclaim, the Parent Company is asking for approximately P182,000,000 in overpayment plus P7,000,000 in damages and litigation costs. Due to technical reasons, the principal contractor re-filed the case on or about June 23, 1998 with the Construction Industry Arbitration Commission (CIAC).

On October 27, 1998, the RTC-Pasig issued an order directing the parties to arbitrate their dispute under the Arbitration Law. A similar order was issued by the CIAC on February 3, 1999 dismissing the proceedings instituted before it by the plaintiff. The plaintiff, accordingly, served a demand for arbitration dated April 5, 1999 under the provisions of the Arbitration Law.

The arbitration hearing, during which both the Parent Company and the principal contractor were given the opportunity to present their witnesses, commenced in December 2006 and ended with the decision of the Arbitral Tribunal promulgated on July 31, 2007. In its decision, the Arbitral Tribunal awarded to the principal contractor the sum of P38,518,503, net of the award to Parent Company amounting to P8,387,484.

The principal contractor has appealed the Arbitral Tribunal's decision to the Court of Appeals, praying for the award of the full amount of its claim. The Parent Company has partially appealed the said decision, praying for the reduction of the award to the plaintiff. The Court of Appeals, in its decision dated August 12, 2008 and resolution dated April 16, 2009, awarded to the principal contractor P24,497,556, unpaid progress billings based on the original scope of work, and denied the Parent Company of its motion for partial reconsideration.

On June 5, 2009, the Parent Company filed a Petition for Review on Certiorari to the Supreme Court praying to issue an order or decision (a) declaring the Parent Company as not liable to the principal contractor for unpaid progress billings based on the original scope of work, (b) ordering the principal contractor to pay the Parent Company P7,590,000 as liquidated damages, and (c) setting aside or reversing the Court of Appeal's decision and resolution insofar as they are adverse to the Parent Company. On a Petition for Review on Certiorari dated June 11, 2009, the principal contractor prayed to the Supreme Court to modify the decision and resolution of the Court of Appeals, to award the principal contractor the full amount of its claim. Both petitions are pending resolution by the Supreme Court as of April 1, 2020.

The Parent Company and SLPC have other pending legal cases which are being contested by the Parent Company, SLPC and their legal counsels. Management and the legal counsels believe that the final resolution of these cases will not have a material effect on the Group's financial position and results of operations.

## Note 30 - Advance rentals

Advance rentals are collected from all tenants depending on the agreed terms stated in the contracts which are usually equivalent to three months' rent and can be applied at the terminal months of the lease. The current portion is included as part of accounts payable and other current liabilities account (Note 16) and the non-current portion is shown separately in the consolidated statements of financial position. Movements in the account for the year ended December 31 are as follows:

	2019	2018
At January 1	319,264,957	299,725,077
Additions	97,868,384	87,904,471
Applications	(33,218,577)	(68,364,591)
At December 31	383,914,764	319,264,957

Advance rentals for the years ended December 31 are as follows:

	Note	2019	2018
Current	16	271,914,158	132,235,230
Non-current		112,000,606	187,029,727
		383.914.764	319.264.957

### Note 31 - Net debt reconciliation

The net debt reconciliation as at December 31 is presented below:

	Notes	2019	2018
Long-term loan, at January 1	17	5,983,027,491	8,359,472,703
Cash flows		(55,066,400)	(2,376,445,212)
Long-term loan, at December 31	17	5,927,961,091	5,983,027,491
Accrued interest		22,829,348	34,220,895
Cash and cash equivalents	3	(2,640,088,900)	(2,432,097,332)
Net debt		3,310,701,539	3,585,151,054

Movements in financing liabilities comprising the net debt are disclosed in the related notes to the consolidated financial statements.

### Note 32 - Financial risk and capital management

#### 32.1 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management is carried out by the Group's management under policies approved by its Board of Directors. These policies cover financing structure, foreign exchange and interest rate risk management, guarantees and credit support, as well as treasury control framework. There are no changes in the Group's risk management plans for the years ended December 31, 2019 and 2018.

#### 32.1.1 Market risk

### (a) Foreign exchange risk

The Group's exposure on currency risk is minimal and limited only to foreign currency denominated cash in banks and cash equivalents. Changes in foreign currency exchange rates of these assets are not expected to have a significant impact on the financial position or results of operations of the Group.

The Group's foreign currency denominated cash in banks and cash equivalents as at and net foreign exchange gains for the years ended December 31, 2019 and 2018 are disclosed in Note 3.

# (b) Price risk

The Group's exposure to price risk is minimal and limited only to financial assets at fair value through profit or loss (Note 4) and FVOCI (Note 12) presented in the consolidated statements of financial position. Changes in market prices of these financial assets are not expected to have a significant impact on the financial position or results of operations of the Group.

### (c) Cash flow and fair value interest rate risk

Interest rate risk refers to risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's interest-bearing financial instruments include bank loans (Note 17). Interest rates on bank loans of SLPC and SGCPI are based on the higher between the PHP BVAL rate plus 0.75% per annum and the BSP overnight borrowing rate. The Parent Company's bank loan has fixed interest rate, to be repriced every 30 to 180 days as agreed by the parties.

The Group's interest rate risk management policy focuses on reducing the overall interest expense and exposure to change in interest rates. Changes in market interest rates relate primarily to the Group's long-term loans with floating interest rates as it can cause a change in the amount of interest payments.

Interest on financial instruments with floating rates is repriced at intervals of less than one year. Interest on financial instruments with fixed rates is fixed until the maturity of the instrument. The other financial instruments of the Group are non-interest bearing and are therefore not subject to interest rate risk. The Group invests excess funds in short-term placements in order to mitigate any increase in interest rate on borrowings.

At December 31, 2019, if interest rates on bank loans had been 100 basis points lower or higher with all other variables held constant, post-tax profit for the year would have been higher by/lower by P59,279,611 (2018 - higher by/lower by P28,626,909) mainly as a result of lower/higher interest expense on floating-rate bank loans. Management uses 100 basis points as threshold in assessing the potential impact of interest rate in the operations.

The sensitivity analysis has been determined based on the exposure to interest rates at the end of each reporting period. The sensitivity rate in the analysis is the same rate used in reporting interest rate risk internally to key management personnel and represents the Group's best estimate the reasonably possible change in interest rates.

#### 32.1.2 Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in a financial loss to the Group. Credit risk arises from cash deposits with banks, as well as credit exposure to customers and suppliers.

Exposure to credit risk arises from potential default of the counterparty, with a maximum exposure equal to the carrying amounts of these financial assets. The Group has no significant concentration on credit risk.

The Group's financial assets are categorized based on the Group's collection experience with the counterparties as follows:

- High performing settlements are obtained from counterparty following the terms of the contracts without history of default.
- b. Underperforming some reminder follow-ups are performed to collect accounts from counterparty.
- c. Credit impaired evidence that a financial asset is credit-impaired includes the following observable data: significant financial difficulty of the counterparty, a breach of contract such as a default or being more than 120 days past due; or it is probable that the borrower will enter bankruptcy or other financial reorganization.

The following tables summarize the credit quality of the Group's financial assets per category and aging analysis of financial assets as at December 31:

		Under		
	High performing	performing	Credit impaired	Total
2019				
Current assets				
Cash and cash equivalents	2,617,190,108	-		2,617,190,108
Trade and other receivables	5,219,296,083	-	14,498,427	5,233,794,510
Financial assets at fair value				
through profit or loss	36,278,844	-		36,278,844
Refundable deposits	3,537,728	-		3,537,728
Non-current assets				
Advances to a joint venture	1,019,989,374	-		1,019,989,374
Refundable deposits	132,838,523	-		132,838,523
Financial assets at FVOCI	803,668,496	-		803,668,496
	9,832,799,156	-	14,498,427	9,847,297,583
2018				
Current assets				
Cash and cash equivalents	2,417,417,612	-		2,417,417,612
Trade and other receivables	3,284,010,542	-	15,542,333	3,299,552,875
Financial assets at fair value				
through profit or loss	41,424,316	-	-	41,424,316
Refundable deposits	3,567,100	-		3,567,100
Non-current assets				
Refundable deposits	76,104,635	-		76,104,635
Financial assets at FVOCI	782,395,996	-		782,395,996
	6,604,920,201	-	15,542,333	6,620,462,534

There are no collaterals held as security or other credit enhancements attached to the Group's financial assets.

Allowance for impairment of receivables as at December 31, 2019 amounted to P14,498,427 (2018 - P15,542,333). Apart from the financial assets covered by allowance, the remaining financial assets are classified as high performing.

The credit quality of the Group's financial assets is discussed below.

# (a) Cash and cash equivalents

Credit risk from balances with banks is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties to mitigate financial loss through counterparty's potential failure to make payments.

As at December 31, the Group's cash and cash equivalents are deposited in the following types of financial institutions as approved by the Board of Directors:

	2019	2018
Universal banks	1,378,727,558	1,925,507,775
Thrift banks	1,216,460,383	437,868,697
Commercial banks	22,002,167	54,041,140
	2,617,190,108	2,417,417,612

Cash in banks and cash equivalents as at December 31, 2019 and 2018 are all considered high grade financial assets. The remaining cash in the consolidated statements of financial position pertains to cash on hand which is not exposed to credit risk (Note 3).

#### (b) Receivables

There is no concentration of credit risk with respect to receivables since the Group has a large number of counterparties involved.

#### Trade receivables

Sales of residential condominium units that are on installment basis are supported by post-dated checks from the buyers. Titles to properties sold are not released unless full payment is received. In case of leasing operation, tenants are subjected to credit evaluation and are required to put up security deposits and pay advance rentals, if necessary. For the hotel operation, hotel guests who wish to avail of a credit line are subjected to the normal credit investigation and checking. References are required including review of the customer's financial position and earnings. Approval of a credit line is performed by the Financial Controller and the General Manager. A guest may not be given a line, but special ad hoc arrangements are allowed. It usually requires deposits, prepayments or credit card guarantees as collaterals. Existing credit lines are reviewed annually. The balances due from customers are considered as high grade financial assets.

The Group applies the PFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The loss allowance as at December 31, 2019 and 2018 was determined as follows for trade receivables:

	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Total
December 31, 2019	Current	past due	past due	past due	Total
Expected loss rate	0%	0%	0%	100%	
Trade receivables	3,684,003,488			12,366,384	3,696,369,872
Loss allowance	-	-	-	12,366,384	12,366,384
December 31, 2018					
Expected loss rate	0%	0%	0%	100%	
Trade receivables	1,856,018,414			13,410,290	1,869,428,704
Loss allowance				13,410,290	13,410,290

## Non-trade receivables; Advances to a joint venture

The credit exposure on nontrade receivables is considered to be minimal as there is no history of defaults and collections are expected to be made within 30 to 60 days. In respect of balances due from related parties, management considered the credit quality of these receivables to be good based on financial condition of the related parties.

### (c) Refundable deposits

Refundable deposits include cash required from the Group for the on-going construction and utilities maintenance. This is refundable at the end of the lease term. Refundable deposits are reflected at their carrying amounts which are assumed to approximate their fair values. Considering the balance and average term of outstanding lease arrangements, management believes that the impact of discounting is not significant. Refundable deposits are considered as high performing financial assets.

## (d) Financial assets at fair value through profit or loss and financial assets at FVOCI

The Group adheres to fixed limits and guidelines in its dealings with counterparties of its investments in financial assets at fair value through profit or loss and financial assets at FVOCI. The Group's maximum exposure to credit risk as at December 31, 2019 and 2018 is equal to the carrying values of its financial assets. Given the Group's diverse base of counterparties, it is not exposed to large concentrations of credit risk.

### 32.1.3 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group maintains sufficient cash and cash equivalents in order to fund its operations. The Group monitors its cash flows and carefully matches the cash receipts from its operations against cash requirements for its operations. The Group utilizes its borrowing capacity, if necessary, to further bolster its cash reserves.

The table below analyzes the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Balances due within 12 months approximate their carrying balances, as the impact of discounting is not significant.

	0 - 90 days	91 - 180 days	181 - 360 days	Total
At December 31, 2019				
Bank loans	1,045,000,000	2,100,000,000	408,333,333	3,553,333,333
Accounts payable and				
other current liabilities*	3,650,622,393	-	-	3,650,622,393
Deposits from tenants			391,914,057	391,914,057
Installment payable	-	443,917,972	-	443,917,972
Dividends payable	-	47,544,516		47,544,516
Future interest payable	59,411,317	116,194,444	54,444,444	230,050,205
• •	4,755,033,710	2,707,656,932	854,691,834	8,317,382,476
At December 31, 2018				
Bank loans	133,333,333	1,433,333,333	266,666,667	1,833,333,333
Accounts payable and				
other current liabilities*	3,372,650,316			3,372,650,316
Deposits from tenants			503,462,220	503,462,220
Installment payable	113,948,488	91,306,826	185,025,217	390,280,531
Dividends payable		42,683,650		42,683,650
Future interest payable	88,681,822	88,255,395	132,350,972	309,288,189
	3,708,613,959	1,655,579,204	1,087,505,076	6,451,698,239

<sup>\*</sup>excluding advance rentals, contract liabilities, customers' deposits, reservation payable, output VAT, deferred output VAT and payable to government agencies

## 32.2 Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating, comply with externally imposed capital requirements, and maintain healthy capital ratios in order to support its business and maximize shareholders value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. There were no changes in the Group's strategies and policies during 2019 and 2018.

The Group monitors capital using a gearing ratio, which is net debt, including long-term loan less cash and cash equivalents, divided by capital. Capital pertains to total equity less non-controlling interest. The gearing ratio as at December 31 is presented below:

	2019	2018
Net debt		
Long-term loan	5,927,961,091	5,983,027,491
Less: cash and cash equivalents	(2,640,088,900)	(2,432,097,332)
·	3,287,872,191	3,550,930,159
Capital		
Total equity	41,270,138,878	39,066,359,232
Less: Non-controlling interest	(6,254,206,015)	(6,286,923,473)
-	35,015,932,863	32,779,435,759
Gearing ratio	9.39%	10.83%

The Group was able to meet its capital management objectives.

# 32.3 Fair value measurement

The Group follows the fair value measurement hierarchy to disclose the fair value measurements of its financial instruments. The table below summarizes the fair value measurement hierarchy of the Group's assets and liabilities at December 31:

	Fair value measurement using			
	Quoted prices in Significant Significant			
	active markets	observable inputs	unobservable	
	(Level I)	(Level 2)	inputs (Level 3)	Total
2019				
Assets measured at fair value				
Financial assets at fair value through profit or loss Investment properties:	36,278,844	-		36,278,844
Land	-		15,253,910,599	15,253,910,599
Buildings			17,649,466,169	17,649,466,169
Financial assets at FVOCI:				
Quoted	33,958,500			33,958,500
Unquoted	-		769,709,996	769,709,996
Assets for which fair values are disclosed				
Financial asset at amortized cost				
Refundable deposits		132,838,523		132,838,523
Liabilities for which fair values are disclosed				
Installment payable		443.917.972		443,917,972
Deposits from tenants		1,118,744,931		1,118,744,931
2018				
Assets measured at fair value				
Financial assets at fair value through profit or loss	41,424,316			41,424,316
Investment properties:				
Land			13,233,022,951	13,233,022,951
Buildings			19,278,053,097	19,278,053,097
Financial assets at FVOCI:				
Quoted	33,455,000			33,455,000
Unquoted			748,940,996	748,940,996
Assets for which fair values are disclosed				
Financial asset at amortized cost				
Refundable deposits		76,104,635		76,104,635
Liabilities for which fair values are disclosed		, ,		.,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
Installment payable		541,161,733		541,161,733
Deposits from tenants		1.093.983.483		1.093,983,483

The Group's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

There have been no assets and liabilities transferred among Level 1, Level 2 and Level 3 during 2019 and 2018.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

(a) Financial assets at fair value through profit or loss

The fair value of financial assets at fair value through profit or loss is based on quoted market prices at the reporting date.

(b) Cash and cash equivalents, trade and other receivables, accounts payable and other current liabilities, accrued employee benefits and dividends payable

Due to the short-term nature of cash and cash equivalents, trade and other receivables, accounts payable and other current liabilities, dividends payable and accrued employee benefits, their carrying values were assessed to approximate their fair values.

### (c) Installment contracts receivable

The fair value of installment contracts receivable is based on the discounted value of future cash flows using applicable rates for similar instruments.

(d) Refundable deposits and deposits from tenants

The fair value of deposits from tenants was based on the present value of estimated future cash flows using applicable market rates at the reporting date. Discount ranges from 2.45% to 8.26% as at December 31, 2019 (2018 - 1.69% to 7.67%).

## (e) Financial assets at FVOCI

Refer to Note 12 for the methods and assumptions used to estimate the fair values of financial assets at FVOCI as at December 31, 2019 and 2018.

### (f) Bank loans

The carrying value of the bank loans with variable interest rates approximates their fair value because of recent and quarterly repricing based on market conditions.

### (g) Investment properties

Refer to Note 10 for the methods and assumptions used to estimate the fair values of investment properties as at December 31, 2019 and 2018.

## Note 33 - Significant accounting judgments, estimates and assumptions

Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates, assumptions and judgments concerning the future. The resulting accounting estimates will, by definition seldom equal the related actual results. The estimates and assumptions applied by the Group and which may cause adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

# 33.1 Critical accounting estimates and assumptions

### (a) Determination of fair values of investment properties

The fair values of investment properties are determined by independent real estate valuation experts using recognized valuation techniques. In some cases, fair values are determined based on recent real estate transactions with similar characteristics and in the location of those of the Group's assets. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgment, the Group considers information from a variety of sources including:

- current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- recent prices of similar properties in less active markets, with adjustments to reflect any changes in
  economic conditions since the date of the transactions that occurred at those prices; and
- stabilized net operating income based on reliable estimates of future cash flows, derived from the
  terms of any existing lease and other contracts and (where possible) from external evidence such as
  current market rents for similar properties in the same location and condition, and using pre-tax
  discount rates that reflect current market assessments of the uncertainty in the amounts and timing
  of the cash flows.

The significant method and assumptions used by the appraisers in estimating fair values of investment properties are disclosed in Note 10. The fair values, which are also the values of investment properties as at December 31, 2019 and 2018, are disclosed in Note 10.

Fair value gain on investment properties represent significant amounts both in value of property and income. Any +/- 1% change in fair value per square meter increases/decreases total assets and income before tax by P228.95 million (2018 - P297.94 million).

### (b) Useful lives of property and equipment

The useful life of each item of the Group's property and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimate is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any property and equipment would increase the recorded operating expenses and decrease non-current assets.

In 2019 and 2018, there were no changes in the estimated useful lives of property and equipment. As at December 31, 2019, property and equipment have a carrying value of P12.81 billion (2018 - P13.75 billion) (Note 13).

If the actual useful lives of the property and equipment differ by 10% (assessment threshold used by management), the carrying amount of property and equipment would have been P408.39 million higher or P334.14 million lower (2018 - P285.85 million higher or P233.88 million lower).

## (c) Estimation of percentage-of-completion of the Group's projects

Revenue from sale of condominium is recognized over time using the output method in accordance with the guidance set in PIC Q&A 2016-04. Under the output method, revenue is calculated with reference to the POC of the project. POC is determined based on the actual physical completion of the project. Management believes that revenue from condominium sales reported in the statement of total comprehensive income best reflects the POC of the projects as at reporting date.

The Group has the following on-going projects with its percentage of completion as at December 31:

Projects	2019	2018
The Rise Makati	92%	65%
Shang Wack Wack	15%	1%

## (d) Determining retirement benefit obligation

The Group maintains a qualified defined benefit retirement plan. The calculations of retirement costs of the Group are dependent upon the use of assumptions, including discount rates, expected return on plan assets, interest cost, future salary increases, benefits earned, mortality rates, the number of employee retirements, the number of employees electing to take lump-sum payments and other factors.

Actual results that differ from assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense and the recorded obligation in future periods. While the Group believes that the assumptions used are reasonable, differences in actual experience or changes in assumptions may materially affect the Group's retirement obligation and future expense.

In determining the long-term rates of return, the Group considers the nature of the plans' investments, an expectation for the plans' investment strategies, historical rates of return and current economic forecasts. The Group evaluates the expected long-term rate of return annually and adjusts such rate as necessary. The possible effects of sensitivities surrounding the actuarial assumptions at the reporting date are presented in Note 25.

### 33.2 Critical accounting judgments

(a) Distinction between properties held for sale, investment properties, and property and equipment

The Group determines whether a property is to be classified as a property held for sale, an investment property, or property and equipment through the following:

- Properties held for sale comprise properties that are held for sale in the ordinary course of business.
   These are condominium units that the Group acquired or developed and intends to sell.
- Investment properties comprise land and buildings which are not occupied, substantially for use by,
  or in the operations of, nor for sale in the ordinary course of business of the Group, but are held
  primarily to earn rental income or capital appreciation; and
- Property and equipment generate cash flows that are attributable not only to them but also to the
  other assets used in the operations of the Group.

In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group.

Some properties comprise a portion that is to earn rentals or for capital appreciation and another portion that is held for use in the operation or for administrative purposes. If these portions cannot be sold separately at the reporting date, the property is accounted for as an investment property only if an insignificant portion is held for use in the operation or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as an investment property. The Group considers each property separately in making its judgment.

The carrying values of properties held for sale, investment properties, and property and equipment as at December 31, 2019 and 2018 are disclosed in Notes 6, 10 and 13, respectively.

#### (b) Revenue recognition

Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgments based on the following, among others:

#### Collectability of contract price

Identification of a "contract" for particular real estate sale transaction in the context of PFRS 15 requires certain judgments based on the collectability of the transaction price. Collectability of the transaction price is demonstrated by the buyer's commitment to pay which, in turn, is supported by substantial initial and continuing investments that gives the buyer a sufficient stake in the property that risk of loss through default motivates the buyer to honor his obligation. Collectability is also assessed by considering factors such as the credit standing of the buyer, age, and location of the property. For condominium sales, in determining whether the contract prices are collectible, the Group considers that initial and continuing investments by the buyer of about 20% would demonstrate the buyer's commitment to pay, based on historical data.

## Stage of completion of the condominium

Prior to 2018, the Group commences the recognition of revenue from sale of uncompleted condominium where the POC method is used when the construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished).

### (c) Estimation of net realizable value of properties held for sale

Properties held for sale are carried at the lower of cost and net realizable value. The net realizable value of completed condominium units is the estimated selling price of condominium unit less estimated costs necessary to make the sale. While the net realizable value of condominium units under construction is the estimated selling price of a condominium unit less estimated costs to complete the construction, estimated time value of money to the date of completion and estimated costs necessary to make the sale.

The carrying amount of properties held for sale and other information are shown in Note 6.

#### (d) Recoverability of investments in an associate and a joint venture

The Group's investments in associates and a joint venture are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable. An impairment loss would be recognized whenever evidence exists that the carrying value is not recoverable.

As discussed in Note 8, the Group's interest in SLPI was reclassified as investment in subsidiary from investment in an associate as a result of PSI's acquisition of the remaining 50% interest in SLPI in 2018.

### (e) Impairment of goodwill

The Group reviews the goodwill annually for impairment and whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. Goodwill is monitored by management at SGCPI's business level (lowest level of CGU identified) following its acquisition by Parent Company.

As at December 31, 2019 and 2018, based on management's assessment and judgment, there is no impairment of goodwill since the recoverable amount of the CGU is higher than the carrying value.

As at December 31, 2019 and 2018, the recoverable amount of SGCPI's hotel business was determined based on value in use calculation (using Level 3 inputs) and require the use of certain assumptions. In computing for the value in use, the management has employed the discounted cash flow method in computing for the value in use. The calculations use cash flow projections based on financial forecasts covering a five-year period beginning 2019.

The cash flow forecasts reflect management's expectations of revenue growth, operating costs and margins based on past experience and outlook, consistent with internal measurements and monitoring.

Pre-tax adjusted discount rate applied to the cash flow forecasts is derived using the weighted average cost of capital as at December 31, 2019.

The following are the key assumptions used:

Pre-tax adjusted discount rate	4.13%
Terminal growth rate	3.40%

The Group's impairment review includes an impact assessment of changes in discount rate used for value in use calculations. If the discount rate would increase/decrease by 1%, the estimated fair value of CGU would have been lower/higher by P945.09 million/P984.59 million. Based on this sensitivity analysis, management concluded that no reasonable change in base case assumptions would cause the carrying amount of SGCPI's business to exceed its recoverable amount.

#### (f) Impairment of non-financial assets

The Group reviews its non-financial assets, such as investments in associates and in a joint venture, real estate development projects, and property and equipment, for any indicator of impairment in value. This includes considering certain factors such as significant changes in asset usage, significant decline in assets' market value, obsolescence or physical damage of an asset, significant underperformance relative to expected historical or projected future operating results and significant negative industry or economic trends. If indicators of impairment have been identified, the Group determines the recoverable amount of the asset, which is the higher of the asset's fair value less costs to sell and value in use.

Given historical profitable operations and profit projections, the Group has assessed that there are no impairment indicators with respect to the non-financial assets as at December 31, 2019 and 2018.

## (g) Classification of leases as operating lease

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the fair value of the asset, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

The carrying values of investment properties as at December 31, 2019 and 2018 are disclosed in Note 10.

#### (h) Income taxes

A certain degree of judgment is required in determining the provision for income taxes, as there are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

The Group recognizes liabilities for tax audit issues when it is probable. The liabilities are based on estimates whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Further, the Group reviews the carrying amounts of deferred tax assets at each reporting date and reduces them to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax assets to be utilized. The Group expects to generate sufficient future taxable profits to allow all of its recognized deferred tax assets to be utilized. Deferred tax assets recognized as at December 31, 2019 and 2018 are disclosed in Note 26.

### (i) Contingencies

The Parent Company and SLPC are currently involved in various legal proceedings. The estimates of the probable costs for the resolution of these claims have been developed in consultation with the outside legal counsel handling the defense in these matters and are based upon analyses of potential reports. Based on management's assessment, these proceedings will not have a material effect on the Group's financial position and performance (Note 29).

#### (j) Low value leases

Payments associated with short-term leases and leases of low-value assets are recognized on a straightline basis as an expense in the profit or loss. Management considered lease agreements with third parties as low value leases.

# Note 34 - Summary of significant accounting and financial reporting policies

#### 34.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by SEC.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, investment properties and financial assets at FVOCI.

The preparation of consolidated financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 33.

### 34.2 Changes in accounting policy and disclosures

- (a) New standards, amendments and interpretations adopted by the Group
- PFRS 16, 'Leases' (effective January 1, 2019). PFRS 16, 'Leases', affects primarily the accounting by
  lessees and will result in the recognition of almost all leases on balance sheet. The standard removes
  the current distinction between operating and financing leases and requires recognition of an asset
  (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts.
  An optional exemption exists for short-term and low-value leases.

In applying PFRS 16 for the first time, the Group applied the modified retrospective method and used the practical expedient permitted by the standard on accounting for operating leases with a remaining lease term of less than 12 months as at January 1, 2019 as short-term leases.

The adoption of the standard did not have a significant impact on the Group's financial statements. Its existing leases with third parties were classified as low-value leases, in accordance with the standard's exemption.

- Philippine Interpretation IFRIC 23 Uncertainty over Income Tax Treatments (effective January 1, 2019). The interpretation explains how to recognize and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. In particular, it discusses:
  - how to determine the appropriate unit of account;
  - that the entity should assume a tax authority will examine the uncertain tax treatments and have full knowledge of all related information, i.e. that detection risk should be ignored;
  - that the entity should reflect the effect of the uncertainty in its income tax accounting when it is not probable that the tax authorities will accept the treatment;
  - that the impact of the uncertainty should be measured using either the most likely amount or the
    expected value method, depending on which method better predicts the resolution of the
    uncertainty, and;
  - that the judgements and estimates made must be reassessed whenever circumstances have changed or there is new information that affects the judgements.

The adoption of the interpretation above had no material impact on the consolidated financial statements of the Group.

- Amendments to PAS 19 Plan Amendment, Curtailment or Settlement (effective January 1, 2019).
   The amendments to IAS 19 Employee Benefits clarify the accounting for defined benefit plan amendments, curtailments and settlements. They confirm that entities must:
  - calculate the current service cost and net interest for the remainder of the reporting period after a
    plan amendment, curtailment or settlement by using the updated assumptions from the date of
    the change.
  - recognise any reduction in a surplus immediately in profit or loss, either as part of past service cost or as a gain or loss on settlement. In other words, a reduction in a surplus must be recognised in profit or loss even if that surplus was not previously recognised because of the impact of the asset ceiling.
  - separately recognise any changes in the asset ceiling through other comprehensive income.

The adoption of the interpretation above had no material impact on the consolidated financial statements of the Group.

IFRIC Agenda Decision on Over Time Transfer of Constructed Goods (PAS 23, Borrowing Cost)

In March 2019, the IFRIC in its agenda decision concluded that the principles and requirements in International Accounting Standard (IAS) 23, Borrowing Costs, provide an adequate basis for an entity to determine whether to capitalize borrowing costs incurred related to the construction of a residential multi-unit real estate development with the intention of selling the individual units in the building to customers in which the entity intends to enter into contracts with customers for the unsold units as soon as it finds suitable customers.

The terms and relevant facts and circumstances of the contracts with customers are such that, applying International Financial Reporting Standard (IFRS) 15, Revenue from Contracts with Customers, par. 35(c), the entity transfers control of each unit over time and therefore, recognizes revenue over time.

The IFRIC concluded that any inventory (work-in-progress) for unsold units under construction that the entity recognizes is not a qualifying asset, as the asset is ready for its intended sale in its current condition - i.e., the developer intends to sell the partially constructed units as soon as it finds suitable customers and, on signing a contract with a customer, will transfer control of any work-in-progress relating to that unit to the customer. Accordingly, no borrowing costs can be capitalized on such unsold real estate inventories.

The SEC, in its Memorandum Circular No. 4-2020, provided for the relief to the Real Estate Industry by deferring the implementation of IFRIC Agenda Decision on Over Time Transfer of Constructed Goods (PAS 23) until December 31, 2020. Effective January 1, 2021, real estate companies in the Philippines shall adopt the IFRIC interpretations and any subsequent amendments thereto retrospectively or as the SEC will later prescribe. The Group opted to avail of this relief for the current period. The accounting policies applied for borrowing costs are disclosed in Note 34.16. If the Group adopted the IFRIC agenda decision, the Group would recognize capitalized borrowing costs as expense in the period it was incurred.

## (b) New standards, amendments and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations to existing standards are effective for annual periods after January 1, 2019, and have not been early adopted nor applied by the Group in preparing these financial statements. None of these standards are expected to have significant effect on the consolidated financial statements of the Group.

# 34.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at December 31, 2019 and 2018. The subsidiaries' financial statements are prepared for the same reporting year as the Parent Company. The Group uses uniform accounting policies, any difference between subsidiaries and the Parent Company are adjusted properly.

The Group is composed of the subsidiaries listed below:

Nature and name of entity	0	Ownership %		
	2019	2018	2017	
Property development:				
Shang Properties Realty Corporation (SPRC)	100	100	100	
Shang Property Developers, Inc. (SPDI)	100	100	100	
The Rise Development Corporation, Inc. (TRDCI)	100	100	100	
Shang Wack Wack Properties, Inc. (SWWPI	100	100	100	
Hotel operation:				
Shang Global City Properties, Inc. (SGCPI)	60	60	60	
Leasing:				
SPI Parking Services, Inc. (SPSI)	100	100	100	
Shangri-la Plaza Corporation (SLPC)	100	100	100	
KSA Realty Corporation (KSA)	70.04	70.04	70.04	
Real estate:				
Ivory Post Properties, Inc. (IPPI)	100	100	100	
KPPI Realty Corporation (KRC)	100	100	100	
Martin B Properties, Inc. (MBPI)	100	100	100	
New Contour Realty, Inc. (NCRI)	100	100	100	
Perfect Sites, Inc. (PSI)	100	100	100	
Shang Fort Bonifacio Holdings, Inc. (SFBHI)	100	100	100	
Shang Global City Holdings, Inc. (SGCHI)	100	100	100	
Sky Leisure Properties, Inc. (SLPI)	100	100		
Property management:				
KPPI Management Services Corporation (KMSC)	100	100	100	
Shang Property Management Services, Inc. (SPMSI)	100	100	100	
Other supplementary business:				
Gipsey, Ltd. (Gipsey)	100	100	100	
Silver Hero Investments Limited (SHIL)	100	100	100	
EPHI Logistics Holdings, Inc. (ELHI)	60	60	60	

Except for Gipsey and SHIL, which were incorporated in the British Virgin Islands (BVI) and use Hong Kong dollars (HK\$) as their functional currency, all the other subsidiaries were incorporated and registered in the Philippines which use Philippine Peso as their functional currency.

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the Parent Company do not differ from the proportion of ordinary shares held.

The summarized financial information of subsidiaries with significant non-controlling interest as at and for the years ended December 31, 2019 and 2018 are disclosed in Note 9.

#### (a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. These are deconsolidated from the date that control ceases.

The Group also assesses the existence of control where it does not have more than 50% of the voting power by virtue of de facto control. De facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group control over the investee.

Whenever the Group obtains control of one or more other entities, it assesses whether the acquired group of net assets constitutes a business. In assessing whether a transaction is an acquisition of a business or assets, the Group identifies the elements in the acquired group, assesses the capability of the acquired group to produce outputs, and assesses the capability of a market participant to produce outputs if missing elements exist. If the assets acquired are not a business, the Group accounts for the transaction or other event as an asset acquisition.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PFRS 9 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is not accounted for within equity.

If the excess of the consideration is transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration is transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

# (b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

# (c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for purposes of subsequently accounting for the retained interest as an associate or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

#### (d) Associates and joint ventures

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting.

Interests in joint ventures are accounted for using the equity method, after initially being recognized at cost in the consolidated statement of financial position.

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognized as a reduction in the carrying amount of the investment.

When the Group increases its stake in an existing associate and gains control in that investment, the investment becomes a subsidiary. When the entity obtains control of the investment (an investor 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) that was previously accounted for under equity method, the carrying amount of the investment in associate is derecognized and the assets and liabilities acquired are recognized in the Group's consolidated financial statements at acquisition date.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

If the ownership interest in an associate or a joint venture is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

The Group determines at each reporting date whether there is any objective evidence that the investments is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the investments and its carrying value and recognizes the amount adjacent to 'share in net earnings of associates' in the consolidated statement of total comprehensive income. The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 34.13.

Dilution gains and losses arising in investments are recognized in profit or loss. Investment in subsidiaries and associates are derecognized upon disposal. Gains and losses on disposals of these investments are determined by comparing the proceeds with the carrying amount and are included in profit or loss.

## 34.4 Cash and cash equivalents

Cash includes cash on hand and in banks that earns interest at the respective bank deposit rates. 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 date of acquisition and are subject to an insignificant risk of change in value.

## 34.5 Financial instruments

## 34.5.1 Classification of financial assets

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value either through other comprehensive income ("OCI")
  or through profit or loss, and
- those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at EVOCI

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

#### 34.5.2 Measurement of financial assets

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

## Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows
represent solely payments of principal and interest are measured at amortized cost. Interest income
from these financial assets is included in other income using the effective interest rate method. Any
gain or loss arising on derecognition is recognized directly in profit or loss and presented in other
income, net, together with foreign exchange gains and losses. Impairment losses are presented in
other general and administrative expenses in the consolidated statement of total comprehensive
income.

The Group's financial assets at amortized cost consist of cash and cash equivalents (Note 3), trade and other receivables (Note 5), refundable deposits under prepaid taxes and other current assets (Note 7) and other non-current assets (Note 15) in the consolidated statement of financial position.

• FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other income, net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other income, net, and impairment expenses are presented in other general and administrative expenses in the consolidated statement of total comprehensive income.

The Group does not have debt instruments at FVOCI as at December 31, 2019.

FVTPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A
gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in profit or
loss and presented within other income, net, in the period in which it arises.

The Group does not have debt instruments at FVTPL as at December 31, 2019.

## Equity instruments

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

The Group's financial assets measured at FVOCI represent unquoted shares of stock of related parties and quoted investments in various golf club shares and stocks. These are separately shown in the consolidated statement of financial position (Note 12).

Dividends are recognized when the Group's right to receive payment is established, it is probable the economic benefits will flow to the entity and the amount can be measured reliably. Dividends are recognized in profit and loss unless they clearly represent recovery of a part of the cost of the investment, in which case they are included in other comprehensive income. Changes in fair value are recognized in other comprehensive income and are never recycled to profit and loss, even if the asset is sold or impaired.

#### 34.5.3 Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the PFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of counterparties over a period of 36 months before January 1, 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has assessed that the impact of forward-looking information on the loss rates applied is immaterial.

Impairment losses on receivables are presented in other general and administrative expenses consolidated statement of total comprehensive income. Subsequent recoveries are credited to other income.

# 34.5.4 Classification and measurement of financial liabilities

Financial liabilities are classified in the following categories: financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that designated at fair value); and financial liabilities at amortized cost. The Group did not measure its financial liabilities at fair value through profit or loss as at December 31, 2019.

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortized cost.

The Group's accounts payable and other current liabilities (excluding advanced rental, contract liabilities, customers' deposits, reservation payable, output VAT, deferred output VAT and payable to government agencies) (Note 16), installment payable (Note 6), deposits from tenants (Note 18), dividends payable (Note 20), accrued employee benefits (excluding retirement benefits) (Note 25) and bank loans (Note 17) are classified under financial liabilities at amortized cost.

#### 34.5.5 Initial recognition

Regular purchases and sales of financial assets are recognized on the trade date (the date on which the Group commits to purchase or sell the asset).

Financial assets and liabilities not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs. Financial assets and liabilities carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are recognized as expense in profit or loss.

The Group recognizes a financial liability in the consolidated statement of financial position when the Group becomes a party to the contractual provision of the instrument.

## 34.5.6 Day 1 difference

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

# 34.5.7 Derecognition

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognized when the obligation is discharged or is cancelled or has expired. When 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 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.

# 34.5.8 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Group or the counterparty. There are no offsetting arrangements as at December 31, 2019 and 2018.

# 34.6 Trade and other receivables

Trade receivables arising from regular sales with credit term of 30 to 60 days and other receivables are recognized initially at fair value and subsequently measured at cost using the effective interest method, less any provision for impairment.

The Group applies the PFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized within operating expenses in the consolidated statement of total comprehensive income. When a receivable remains uncollectible after the Group has exerted all legal remedies, it is written-off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written-off are credited against other general and administrative expenses in the consolidated statement of total comprehensive income.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before January 1, 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Refer to Note 34.5 for other relevant accounting policies on trade and other receivables.

## 34.7 Properties held for sale

Properties held for sale are properties being constructed or acquired for sale in the ordinary course of business, rather than for rental or capital appreciation, and are carried at the lower of cost and net realizable value (NRV). NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs of completion and estimated costs to sell.

Cost of condominium units held for sale represents accumulated costs of the unsold units of the completed projects. Cost includes those directly attributable to the construction of the projects such as cost of land, direct materials, borrowing costs, professional and consultancy fees, and project management costs, which are allocated to the unsold units.

Cost of construction in-progress represents the accumulated costs for the construction and development of the ongoing projects. It includes those that are directly attributable to the construction of the projects such as cost of land, direct materials, borrowing costs, professional and consultancy fees, and project management costs.

Properties held for sale are derecognized when they are sold or there are no future benefits to the Group. The carrying amount of those properties held for sale is recognized as an expense, reported as cost and expenses in the period in which the related revenue is recognized.

# 34.8 Prepaid taxes and other assets

Input VAT, which represents taxes arising from purchases of goods and services, are carried at face amount or at nominal amount less allowance for impairment loss. This is derecognized when applied against output tax, when written off or when actual refund is received. When input VAT is derecognized, its cost and accumulated impairment losses, if any, are eliminated from the account.

Creditable withholding taxes are carried at face amount or at nominal amount. Creditable withholding taxes are included in current assets, except when these are expected to be utilized more than twelve months after the end of the reporting period, in which case these are classified as non-current assets. Creditable withholding taxes are derecognized when utilized or applied against income tax due.

Prepayments are expenses paid in cash and recorded as assets before they are used or consumed, as the service or benefit will be received in the future. Prepayments expire and are recognized as expense either with the passage of time or through use or consumption.

Other current assets include assets that are realized as part of the normal operating cycle and are expected to be realized within 12 months after the reporting period.

Deposit for a future project represents cash deposit with a third party for a purchase of a property. Deposit for a future project is derecognized upon full payment to the third party. The Group then determines whether the property is to be classified as property held for sale, an investment property, or property and equipment depending on the usage of the property.

# 34.9 Investment properties

Investment property is defined as property held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for: (a) use in the production of supply of goods or services or for administrative purposes; or (b) sale in the common course of business.

The Group's investment property, principally comprising of properties in Mandaluyong and Makati City are held for capital appreciation and is not occupied by the Group. The Group has adopted the fair value model for its investment properties (Note 10).

After initial recognition, investment property is carried at fair value as determined by an independent firm of appraisers. Fair value is based on direct income capitalization approach and market comparison approach, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by the independent appraiser. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Changes in fair values are recognized in the consolidated statement of total comprehensive income under gain on fair value adjustment of investment properties.

An investment property is derecognized from the consolidated statement of financial position on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

Removal of an item within investment property is triggered by a change in use, by sale or disposal. If an investment property becomes owner-occupied, it is reclassified as property and equipment (Note 34.11), and its fair value at the date of reclassification becomes its cost for accounting purposes. Gain or loss arising from disposal is determined as the difference between the net disposal proceeds and the carrying amount of the asset. Gain or loss on disposal is recognized in profit or loss in the period of the disposal.

Property that is being constructed or developed for future use as investment property is classified as investment property.

Impairment of investment properties is discussed in Note 34.13.

# 34.10 Real estate development projects

Real estate development projects are undertaken by the subsidiaries and are carried at cost less any impairment in value. Cost primarily consists of acquisition cost of the property being constructed, air rights, expenditures for the development and construction of the real estate project and borrowing costs incurred, if any, in the acquisition of qualifying assets during the construction period and up to the date of completion of construction.

# 34.11 Property and equipment

Property and equipment, except land rights, are stated at historical cost less depreciation and amortization, and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items, which comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of total comprehensive income within other general and administrative expenses during the financial period in which they are incurred.

Land rights are not depreciated. Depreciation and amortization of property and equipment are calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives (in years), as follows:

Building and leasehold improvements	25 or lease term, whichever is shorter	
Transportation equipment	3 to 5	
Furniture, fixtures and other equipment	2 to 5	

Major renovations are depreciated over the remaining useful life of the related asset.

The assets' residual values and estimated useful lives are reviewed periodically, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 34.13).

The carrying amount of an item of property and equipment is derecognized on disposal or when no future economic benefits are expected from its disposal at which time the cost and related accumulated depreciation and amortization are removed from the accounts. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized under other income or expense in the consolidated statement of total comprehensive income.

Depreciation or amortization ceases at the earlier of the date when the asset is classified as either investment property or property held for sale and the date the asset is derecognized.

Fully depreciated and amortized property and equipment are retained in the accounts until they are no longer in use, and no further depreciation and amortization are charged to the consolidated statement of total comprehensive income.

# 34.12 Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any NCI in the acquired company and the acquisition-date fair value of any previously-held interest in the acquired company over the fair value of the identifiable net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level. Gains and losses on the disposal of a subsidiary include the carrying amount of goodwill relating to the entity sold.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

# 34.13 Impairment of non-financial assets

Non-financial assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that have definite useful lives are subject to amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use requires the Group to make estimates of future cash flows to be derived from the particular asset, and to discount them using a pre-tax market rate that reflect current assessments of the time value of money and the risks specific to the asset. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash generating units (CGUs).

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but the increase should not exceed the carrying amount that would have been determined had not the impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized as income immediately.

# 34.14 Accounts payable and other current liabilities

Accounts payable and other current liabilities are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable and financial liabilities at amortized cost are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). If not, these are presented as non-current liabilities.

Accounts payable and other current liabilities are measured at the original invoice amount as the effect of discounting is immaterial.

Relevant accounting policies for classification, recognition, measurement and derecognition of accounts payable and other current liabilities and financial liabilities at amortized cost are presented in Note 34.5.

#### 34.15 Deposits from tenants

Deposits from tenants are carried at the present value of future cash flows using appropriate discount rates. The difference between the present value and the actual deposit received is treated as additional rental incentive which is recorded under "deferred lease income" in the consolidated statement of financial position and are recognized as rental income using the straight-line method over the term of the lease.

# 34.16 Borrowings and borrowing costs

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised within interest expense and bank charges in the consolidated statement of total comprehensive income.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. All other borrowing costs are recognized and charged to profit or loss in the year in which they are incurred. The Group decided to avail relief issued by the SEC per Memorandum Circular No. 4-2020. The SEC provided for the relief to the real estate industry by deferring the implementation of IFRIC Agenda Decision on Over Time Transfer of Constructed Goods (PAS 23) until December 31, 2020.

# 34.17 Fair value measurement

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 of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation. The Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

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

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

The Group uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques are as follows:

- Market approach A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as a business.
- Income approach Valuation techniques that convert future amounts (e.g., cash flows or income and
  expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined
  on the basis of the value indicated by current market expectations about those future amounts.
- Cost approach A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The investment properties of the Group are classified under Level 3 category.

#### 34.18 Current and deferred income tax

The tax expense comprises current and deferred income taxes. 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, respectively.

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

In the sale of condominium units resulting in recognition of installments contracts receivable, full recognition for income tax purposes is applied when more than 25% of the selling price has been collected in the year of sale. Otherwise, the installment method is applied.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized. The Group reassesses at each reporting date the need to recognize a previously unrecognized deferred income tax asset.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

Deferred income tax liabilities are recognized in full for all taxable temporary differences, except to the extent that the deferred income tax liability arises from the initial recognition of goodwill. Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place can the Group control the reversal of the temporary difference that was not recognized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority where there is an intention to settle the balances on a net basis.

Deferred income tax assets and liabilities are derecognized when relevant temporary differences have been realized and settled, respectively. The Group reassesses at each reporting date the need to recognize previously unrecognized deferred income tax asset.

#### 34.19 Provisions

Provisions are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses. Provisions are derecognized when the obligation is paid, cancelled or has expired.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Provisions are reviewed at each reporting date 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 reversal is recognized in the consolidated statement of total comprehensive income within the same line item in which the original provision was charged.

# **34.20 Equity**

# (a) Share capital

Share capital consists of common shares, which are stated at par value, that are classified as equity.

Share premium is recognized for the excess proceeds and subscriptions over the par value of the shares issued.

## (b) Treasury shares

Where any member of the Group purchases its own equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Parent Company's shareholders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Parent Company's shareholders.

### (c) Retained earnings

Retained earnings includes current and prior years' results of operations, net of transactions with shareholders and dividends declared, if any.

#### (d) Dividend distribution

Dividend distribution to Parent Company's shareholder is recognized as a liability in its financial statements in the period in which the dividends are approved by the Board of Directors.

## 34.21 Earnings per share

Basic earnings per share is calculated by dividing net income by the weighted average number of common shares in issue during the year.

Diluted earnings per share is computed in the same manner as basic earnings per share, however, profit attributable to common shareholders and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares.

# 34.22 Employee benefits

# (a) Retirement benefits

The Group maintains a defined benefit retirement plan determined by periodic actuarial calculations. This defined benefit retirement plan is funded through payments to a trustee-administered fund and determined by periodic actuarial calculations. A defined benefit plan is a retirement plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the consolidated statement of financial position in respect of defined benefit retirement plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. In cases when the amount determined results in a surplus (being an excess of the fair value of the plan assets over the present value of the defined benefit obligation), the Group measures the resulting asset at the lower of: (a) such amount determined; and (b) the present value of any economic benefits available to the Group in the form of refunds or reductions in future contributions to the plan. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest of government bonds converted into zero coupon rates that are denominated in the currency in which the benefits will be paid, and that have terms to maturity which approximate the terms of the related retirement liability.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognized immediately in profit or loss.

# (b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting date are discounted to present value.

## (c) Short-term employee benefits

The Group recognizes a liability and an expense for short-term employee benefits which include salaries, paid sick and vacation leaves and bonuses. Bonuses are based on a formula that takes into consideration the resulting qualified profits. The Group recognizes a provision when contractually obliged or when there is a past practice that has created a constructive obligation.

Liabilities for employee benefits are derecognized when the obligation is settled, cancelled or has expired.

# 34.23 Revenue and expense recognition

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or as an agent. The Group has concluded that it is acting as the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has inventory risk and pricing latitude.

The following specific recognition criteria must be met before revenue and expenses are recognized:

#### (a) Condominium sales

#### Revenue from condominium sales

The Group develops and sells condominium units. Under a contract to sell a condominium unit, the object is the property itself, which is the normal output of a real estate business. In addition, this contract contains information such as the contracting parties' rights and payment terms, which are essential elements for a valid revenue contract. The Group assesses that contract must be signed by the contracting parties to make it enforceable prior to revenue recognition. Also, the developer assesses the commercial substance of the contract and the probability that it will collect the consideration. Collectability of the contract price is demonstrated by the buyer's commitment to pay, which is supported by the buyer's initial and continuous investments that motivates the buyer to honor its obligation.

Contracts to sell condominium units are written on a lump sum payment basis or installment basis which include 10-20% reservation, down payments with installment terms ranging from 1-3 years, and either bank or in-house financing for the remaining balance.

The Group satisfies its performance obligation as it develops the property. In accordance with Philippine Interpretations Committee (PIC) 2016-04, the Group considers that the Group's performance does not create the asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date. Therefore, revenue is recognized over time, i.e. as the related obligations are fulfilled, measured principally using the output method on the basis of the estimated completion of a physical proportion of the contract work. Land and materials delivered on site, such as steels, rebars and elevators, which are yet to be installed/attached to the main structure, are excluded from the percentage-of-completion.

Revenue is measured at the transaction price agreed under the contract, except for contracts where the timing difference between the construction period and payment by the customer exceeds one year. In such contracts, the Group assessed that it is necessary to adjust the transaction price for the effects of a significant financing component as required by PIC Q&A 2018-12, but the Group decided not to adjust the transaction price and availed the relief issued by the SEC per Memorandum Circular No. 3-2019 dated February 8, 2019. The SEC provided relief to the real estate industry by deferring the application of the provisions of PIC Q&A 2018-12 for a period of three (3) years until January 1, 2021. For completed projects, revenue from condominium sales are recognized in full (ie. point in time) once the Group assessed that the contract meets all criteria for revenue recognition.

Under the sales contract, customers are required to pay the transaction price (in the form of progress billings) over a certain period of time. Any excess (deficit) of collections over the recognized revenue are recognized as contract liabilities under accounts payable and other current liabilities (installment contracts receivable under Trade and other receivables, net) as shown in the consolidated statement of financial position.

Payments received from potential buyer to provide exclusive rights to buy a specific condominium unit under certain conditions and up to specified period are treated initially as a liability and are recognized as part of "customers' deposits" under accounts payable and other liabilities. These deposits are applied as payment of the transaction price as soon as the revenue recognition criteria are met.

Cost of condominium sales include upfront costs such as land costs and connection fees, which are accounted for as fulfillment costs, and development costs which contribute to the construction progress of the development project. Fulfillment costs are recognized as contract assets arising from fulfillment costs to the extent that such costs give rise to resources that will be used in satisfying performance obligations in the future and that are expected to be recovered. These costs are included in properties held for sale in the consolidated statement of financial position. Such contract assets are amortized as cost of condominium sales consistent with the revenue recognition method applied, subject to impairment up to the extent that the carrying amount of the asset exceeds (a) the remaining amount of consideration that the Group expects to receive; less (b) direct costs that have not been recognized as expenses. Development costs are recognized as expense as the work to which they relate is performed.

Incremental costs of obtaining a contract to sell condominium units include commissions paid to sales or marketing agents. Fixed monthly living allowance, transportation allowance provided to real estate agents and commissions paid prior to signing of contracts to sell are expensed outright. Commissions paid after signing of contracts are recognized as contract assets arising from costs to obtain a contract presented as 'prepaid commission' under prepaid expenses and other current assets in the consolidated statement of financial position. These are amortized as cost of condominium sales consistent with the revenue recognition method applied.

The cost of inventory recognized in profit or loss on disposal (cost of condominium sales) is determined with reference to the specific and allocated costs incurred on the sold property taking into account the POC. The cost of condominium sales also includes the estimated development costs to complete the condominium, as determined by the Group's in-house technical staff, and taking into account the POC. The accrued development costs account is presented under "accounts payable and other current liabilities" in the consolidated statement of financial position.

Estimated loss on unsold units is recognized in profit or loss immediately when it is probable that total project costs will exceed total contract revenue.

Condominium units arising from cancellation of contracts to sell are initially measured by the Group based on its original carrying amount at the time it was sold. The Group decided to avail the relief issued by the SEC per Memorandum Circular No. 3-2019 dated February 8, 2019 deferring the application of the provisions of PIC Q&A 2018-14 for a period of three (3) years until January 1, 2021.

# (b) Rental

Rental income from operating leases (the Group is the lessor) is recognized as income on a straight-line basis over the lease term or based on a certain percentage of gross revenue of the lessees, whichever is applicable. When the Group provides incentives to its lessees, the cost of incentives are recognized over the lease term, on a straight-line basis, as a reduction of rental income.

When the revenue recognition criteria are not met, cash received from lessees are recognized as advance rentals, until the conditions for recognizing rental income are met.

# (c) Hotel operation

Hotel revenue from room rentals, food and beverage sales, and other ancillary services are recognized when the services are rendered. Revenue from other ancillary services include, among others, business center and car rental, laundry service, telephone service and health club services. The services rendered are distinct performance obligations, for which prices invoiced to the guests are representative of their stand-alone selling prices. These obligations are fulfilled over time when they relate to room rentals, that is over the stay within the hotel, at a point in time for other goods or services, when they have been delivered or rendered.

Costs of hotel operation are expensed as incurred. These include expenses incurred for the generation of revenue from food and beverage sales, room rentals, and other ancillary services.

# (d) Interest income and expense

Interest income and expense are recognized in profit or loss for all interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a Group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the original effective interest rate.

Interest income on bank deposits is recognized when earned, net of final withholding tax.

#### (e) Dividend income

Dividend income is recognized when the Group's right to receive payment is established, which is generally when the Board of the investee company approved the dividend.

#### (f) Other income

Administration and management services, customer lounge fees, banner income, income from cinema operations and other service income are recognized when the related services have been rendered. Revenues from auxiliary services such as handling, sale of scrap materials, import break bulk and brokerage are recognized when services are provided or when goods are delivered. Money received or amounts billed in advance for rendering of services or delivery of goods are recorded as unearned income until the earning process is complete.

#### (g) Cost and expenses

Cost and expenses are recognized when these are incurred.

CUSA charges to mall tenants are presented as a reduction to costs and expenses in the consolidated statement of total comprehensive income. The Group decided to avail the relief issued by the SEC per Memorandum Circular No. 3-2019 dated February 8, 2019. The SEC provided relief to the real estate industry by deferring the application of the provisions of PIC Q&A 2018-12-H for a period of three (3) years until January 1, 2021.

Accounting policies applied until December 31, 2017

The Group assesses whether it is probable that the economic benefits will flow to the Group when the contract price is collectible. Collectability of the contract price is demonstrated by the buyer's commitment to pay, which is supported by the buyer's initial and continuous investments that motivates the buyer to honor its obligation. Collectability is also assessed by considering factors such as collections and credit standing of the buyer.

#### (a) Condominium sales

Revenue from condominium sales is accounted for using the full accrual method. In accordance with Philippine Interpretations Committee (PIC) Q&A No. 2006-01, the POC method is used to recognize income from condominium sales where the Group has material obligations under the sales contract to complete the real estate project after the unit is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

#### (b) Rental

Rental income from operating leases (the Group is the lessor) is recognized as income on a straight-line basis over the lease term or based on a certain percentage of gross revenue of the lessees, whichever is applicable. When the Group provides incentives to its lessees, the cost of incentives are recognized over the lease term, on a straight-line basis, as a reduction of rental income.

When the revenue recognition criteria are not met, cash received from lessees are recognized as advance rental, until the conditions for recognizing rental income are met.

# (c) Hotel operation (PAS 18 and PFRS 15)

Hotel revenue from room rentals, food and beverage sales, and other ancillary services are recognized when the services are rendered. Revenue from other ancillary services include, among others, business center and car rental, laundry service, telephone service and health club services. The services rendered are distinct performance obligations, for which prices invoiced to the guests are representative of their stand-alone selling prices. These obligations are fulfilled over time when they relate to room rentals, that is over the stay within the hotel, at a point in time for other goods or services, when they have been delivered or rendered.

Costs of hotel operation are expensed as incurred. These include expenses incurred for the generation of revenue from food and beverage sales, room rentals, and other ancillary services.

# (d) Interest income and expense

Interest income and expense are recognized in profit or loss for all interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a Group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the original effective interest rate.

Interest income on bank deposits is recognized when earned, net of final withholding tax.

#### (e) Dividend income

Dividend income is recognized when the Group's right to receive payment is established, which is generally when the Board of the investee company approved the dividend.

# (f) Other income

Administration and management services, customer lounge fees, banner income, income from cinema operations and other service income are recognized when the related services have been rendered. Revenues from auxiliary services such as handling, sale of scrap materials, import break bulk and brokerage are recognized when services are provided or when goods are delivered. Money received or amounts billed in advance for rendering of services or delivery of goods are recorded as unearned income until the earning process is complete.

# (g) Cost and expenses

Cost and expenses are recognized when these are incurred.

# **34.24 Leases**

# (a) Group is the lessor

Rental income from operating lease is recognized on a straight-line basis over the term of the relevant lease or based on a certain percentage of gross revenue of the lessees, whichever is applicable. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term. Assets under these arrangements are classified as investment property in the consolidated statement of financial position (Note 34.9).

# (b) Group is the lessee

The Group has adopted PFRS 16 Leases using the modified retrospective approach from January 1, 2019, as permitted under the specific transition provisions in the standard (Note 34.2).

Aside from exemptions in the standard for short-term and low-value leases which are recognized as operating leases under the provisions of PAS 17, lease payments are discounted using the interest rate implicit in the lease. Payments for leases of properties and office equipment are discounted using the lessee's incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

#### Accounting policies applied until December 31, 2018

Leases, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is apportioned between the liability and finance charges using the effective interest method. Finance charges are reflected in the consolidated statement of total comprehensive income through profit or loss. Rental obligations, net of finance charges, are included in liabilities in the consolidated statement of financial position. The property and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases, in which substantially all the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the consolidated statement of total comprehensive income through profit or loss on a straight-line basis over the period of the lease.

# 34.25 Foreign currency transactions and translation

# (a) Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates (the functional currency). The consolidated financial statements are presented in Philippine Peso, which is the functional and presentation currency of the Group.

# (b) Transactions and balances

Foreign currency transactions are translated into Philippine Peso using the exchange rates prevailing at the date of the transactions. Foreign exchange gains or losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

On consolidation, the assets and liabilities of Gipsey and SHIL, foreign subsidiaries with functional and presentation currency of Hong Kong dollar, are translated into Philippine Peso at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognized in other components of equity. On disposal of a foreign subsidiary, the component of other components of equity relating to that particular foreign subsidiary is recognized in profit or loss.

# 34.26 Related party relationships and transactions

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

#### 34.27 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. These operating segments are the basis upon which the Group reports its segment information presented in Note 2 to the consolidated financial statements.

The accounting policies used to recognize and measure the segment's assets, liabilities and profit or loss is consistent with those of the consolidated financial statements.

# 34.28 Contingencies

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

# 34.29 Events after the reporting period

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

# 34.30 Reclassification

Advances to contractors and suppliers account, which is now presented as part of prepaid taxes and other current assets account, was reported as part of trade and other receivables account in the consolidated statement of financial position until December 31, 2017.

# Note 35 - Event after the reporting period

In March 2020, the Philippine Government declared a community quarantine within Metro Manila to mitigate the spread of the COVID-19 virus. The ongoing quarantine measures not only require people to stay at home but has caused domestic and international travel bans and closure of practically all business establishments. Consequently, the Group suspended its mall operations while occupancy rates for its hotel businesses significantly went down due to cancellations and limited guest check-ins. Likewise, the selling of condominium units has slowed down and therefore, will affect the performance of the Group's real estate segment. While the Group has already seen some adverse effects of the community quarantine on the financial results, the full impact of the global pandemic however, is yet to be established.

# CORPORATE DIRECTORY

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#### SHANG RESIDENCES AT WACK WACK

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# SHANG SALCEDO PLACE PROPERTY MANAGEMENT OFFICE

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## SHANGRI-LA AT THE FORT MANILA

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#### SHANGRI-LA PLAZA

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#### THE ENTERPRISE CENTER

Tel: (63 2) 7-752-1000 Fax: (63 2) 8-886-5001 6766 Ayala Avenue corner Paseo de Roxas, Makati City 1212 helpdesk@theenterprisecenter.com.ph www.theenterprisecenter.com.ph

#### THE RISE MAKATI

Tel: (63 2) 8-843-7473 Sales Office and Gallery 7248 Malugay Street, San Antonio Village, Makati City sales@therisemakati.com www.therisemakati.com

# THE SHANG GRAND TOWER PROPERTY MANAGEMENT OFFICE

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# THE ST. FRANCIS SHANGRI-LA PLACE PROPERTY MANAGEMENT OFFICE

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# INVESTOR RELATIONS INFORMATION



# PRINCIPAL OFFICE

Tel: (63 2) 8-370-3700 Fax: (63 2) 8-370-2777 Level 5, Shangri-La Plaza EDSA corner Shaw Boulevard Mandaluyong City 1550 info@shangproperties.com www.shangproperties.com

## PRINCIPAL BANKERS

Bank of the Philippine Islands BDO Unibank, Inc. Philippine Savings Bank Metropolitan Bank and Trust Company

## **AUDITORS**

Isla Lipana & Co.

## **LEGAL COUNSELS**

Abello Concepcion Regala & Cruz Romulo, Mabanta, Buenaventura, Sayoc & Delos Angeles

# PROPERTY VALUER

Royal Asia Appraisal Corporation

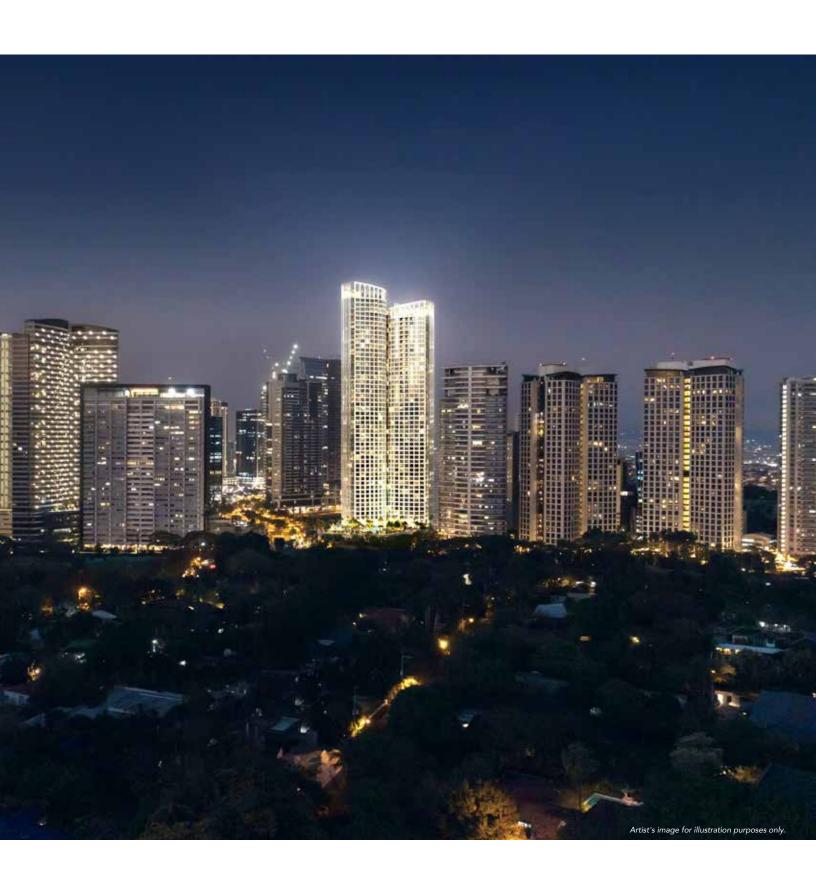
## STOCK TRANSFER AGENT

Rizal Commercial Banking Corp. Ground Floor, GPL Building 221 Sen. Gil Puyat Avenue, Makati City, Metro Manila

# **KEY DATES**

- Regular Board Meeting: Quarterly
- Annual Stockholder's Meeting: Any day in June of each year
- Fiscal Year: January 1 to December 31







# SHANG PROPERTIES, INC.

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