SHANG
PROPERTIES

2021 ANNUAL REPORT

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

Service
Honesty
Asian
Nobility
Global

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MESSAGE TO OUR SHAREHOLDERS

The COVID-19 global pandemic continued to trouble our industry both at home and abroad in 2021. It also gave us an opportunity to demonstrate our collective fortitude and commitment to overcoming its challenges.

We continued to pursue our business goals, paying close attention to economic recovery and the well-being of our people. Remaining focused on our organisation's vision – to be one of the premier developers and managers of prime properties in the Philippines – our optimism for the future remains as strong as ever.

While we have lately seen encouraging signs in the Philippines, overall business activity in 2021 was slow. This was due in large part to uncertainty over COVID-19 mutations and frequently changing lockdown restrictions. Against this backdrop, Shang Properties registered gross operating revenues of PhP4.6 billion, which is 26% lower than the PhP6.2 billion we posted in 2020.

Our net income before tax stood at PhP1.3 billion, down by 28% from the previous year's PhP1.8 billion. Year-end net income after tax (but before adjustments due to CREATE) was PhP1.2 billion versus PhP1.47 billion year-on-year.

The lowering of corporate income tax under the March 2021 CREATE Act resulted in a PhP886.5 million adjustment of our 2021 net income.

These tax adjustments are reflected in our 2021 after-tax net income of PhP2.1 billion – a 40% growth from the previous year of PhP1.5 billion.

Creating value

Our developed properties continued to provide value for both customers and investors despite pandemic-related market conditions.

Residential

In 2021 our residential portfolio generated PhP1.1 billion – or 88% of our total net income – before CREATE.
Aurelia Residences remained a significant contributor, accounting for 35% of our 2021 net income before CREATE at PhP427.3 million – a 130% increase from PhP185.5 million in 2020.

Aurelia Residences is our joint-venture development with Robinsons Land Corporation (RLC) and features 285 ultra-luxury residences in the heart of Bonifacio Global City, Taguig.

Shang Residences at Wack Wack – our 50-storey, 404-unit development in Mandaluyong City – contributed PhP633.4 million, which was a 16% increase on 2020's PhP544.7 million and accounted for 51% of net income before CREATE.

The Rise Makati is a 63-storey, 3,044-unit tower in the northern part of Makati City. The completed project turned over 2,456 units – or 81% of the total – as of December 2021. It provided a net income contribution of PhP40.1 million, or 3% of 2021 net income before CREATE.

Commercial Leasing

While government mobility restrictions were eased somewhat around the latter part of 2021, the retail sector activity remained relatively slow. Many small and medium-sized businesses affected by the pandemic either curtailed or ceased operations as consumers continued to move online. Revenues from our retail space rentals decreased 10% to PhP1.8 billion from the previous year's PhP2.0 billion.

Shangri-La Plaza reported PhP285.9 million in net income, contributing 23% to our 2021 net income before CREATE, while Assembly Grounds at The Rise managed to reduce its year-on-year losses from PhP13.6 million to PhP7.5 million.

At the end of 2021, these two malls posted healthy occupancy rates of 86% and 85% respectively.

Office Leasing

The country's resilient information technology and business process outsourcing (IT-BPO) sector performed well in the office-leasing market during 2021. While several

China-based online gaming operators vacated the market in 2020 due to the pandemic and China's increased oversight of the industry, our office-leasing business remained stable in 2021 with an encouraging number of quality tenants.

The Enterprise Center in Makati contributed PhP683.5 million to our bottom line, accounting for 55% of 2021 net income before CREATE (some 10% less than in 2020). Average occupancy for the year was 82%.

Hospitality

While the hospitality industry continued to be significantly affected by the pandemic in 2021, the potential for growth is promising.

With vaccination coverage swiftly increasing around the world, we expect the leisure and business travel markets to show significant growth as borders re-open and travel restrictions ease.

As a premier hospitality brand, Shangri-La at the Fort Manila is poised to benefit from this resumption in demand. In 2021, the hotel managed to reduce its losses from PhP536.6 million in 2020 to PhP411.9 million. This net loss resulted in a 33% negative contribution to our total net income before CREATE.

Again, we confidently expect Shangri-La at the Fort Manila to see a substantial resurgence and reclaim its market share in the country's tourism and hospitality sector.

Looking forward

Despite the challenges brought about by the pandemic, Shang Properties continued to pursue sustained growth through land acquisitions.

We entered another joint venture with Robinsons Land Corporation (RLC) with plans to develop 8,440 square metres of prime land in RLC's Pasig City township development, Bridgetowne. This high-end, two-tower residential project comprises around 120,000 square metres of net saleable area and is due to launch in the first quarter of 2023.

We also acquired a 3,390-square-metre site for a high-quality residential-tower development in Pasig City, which will provide about 83,000 square metres of net saleable area. It is scheduled to launch in the second quarter of 2023.

A prime 6,024-square-metre residential site was also acquired in Quezon City, where we have plans for a twin residential-tower development. With around 140,000 square metres of net saleable area, it is scheduled for launch by the third quarter of 2023. This marks Shang Properties' first venture in Quezon City, expanding our footprint in the National Capital Region.

A clear horizon

Moving confidently ahead on strong foundations reinforced over several decades, Shang Properties – with its diverse portfolio, strong capital base and outstanding talent pool – remains robust and resilient.

I thank our management and indeed each of our highly valued employees for their outstanding work and dedication during these unusually challenging times.

My gratitude also goes to our Board of Directors, whose enduring support, wisdom and trust are greatly appreciated.

Finally, I thank you, my fellow shareholders, for your unwavering confidence, foresight and steadfast support.

With a clear horizon ahead, let us all take full advantage of the post-pandemic economic momentum to build on opportunities and rewards that it will surely bring.

Yours sincerely,

Edward Kuok Khoon Long
Chairman of the Board

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RESIDENTIAL

AURELIA RESIDENCES

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Located at the quieter, more serene side of Bonifacio Global City is the iconic Aurelia Residences. With sweeping views of Forbes Park, the Manila Golf Club, and the Manila Polo Club, this unique property will become one of the country's most prominent addresses.

Premier architects, designers, and artisans collaborated to design and create a luxury residence that combines modern flair with architectural brilliance. Aurelia Residences features 285 bespoke three- to four-bedroom residential suites. Residents and their guests can enjoy a 40-meter pool, a jacuzzi, a sauna room, function rooms, a kid's play area, a well-equipped gym, a home theater, and relaxing lounges.

Artist's image for illustration purposes only.

Aurelia Residences is a premier development of Shang Robinsons Properties, Inc. (SRPI), a joint venture between Shang Properties, Inc. (SPI) and Robinsons Land Corporation (RLC). As of December 31, 2021, 166 units have been sold with a total sales revenue of PhP22 billion.

Please scan the codes to view Aurelia Residences

Sales Gallery

Three Bedroom Signature Showsuite 360° Live Tour

Artist's image for illustration purposes only.

Artist's image for illustration purposes only.

RESIDENTIAL

SHANG RESIDENCES AT WACK WACK

Artist's image for illustration purposes only.

In the heart of Mandaluyong's most upscale neighborhood, tucked beside the historic Wack Wack Golf and Country Club, is the resort-like Shang Residences at Wack Wack.

Shang Residences at Wack Wack is located in the center of a bustling metropolis, accessible to the Ortigas and Makati Central Business Districts and a short drive to schools, universities, medical institutions, and shopping malls. It also offers stunning views of the golf course and the Makati skyline.

The 50-storey condominium has a total of 404 units composed of one-, two-, and three-bedroom flats. Residents get exclusive access to an outdoor pool, pavilion, yoga studio, lounge, mini theater, and billiards playroom.

As of December 31, 2020, 61% of the units have been sold, bringing in total revenues of PhP8 billion.

Please scan the codes to view Shang Residences at Wack Wack

Sales Gallery
360° Virtual Tour

Three Bedroom
360° Virtual Tour

Artist's image for illustration purposes only.

RESIDENTIAL

THE RISE MAKATI

Shang Properties' The Rise Makati is located in the vibrant district of North Makati, surrounded by the captivating energy of the city. The Rise is in the middle of a neighborhood full of restaurants, art galleries, and live music venues.

The 59-storey residential tower offers 3,044 studio, one-bedroom, and two-bedroom units located above the 2-storey retail podium Assembly Grounds at The Rise. With common leisure areas for residents and their guests, residents can invite their family and friends to The Hangout, a 300-square-meter open lounge with a karaoke and billiards room. For a more exclusive gathering or business meeting, they can book The Workshop, complete with an I.T. bar and a library.

During the day, residents can experience resort living at The Nest. The Rise also has a 28-meter tropical pool and a jogging path amid a landscaped setting.

As of 2021, 98%, or 2,955 units, of The Rise Makati units have been sold, bringing in PhP12.6 billion in sales.

The Rise Makati walkthrough

MALL & RETAIL

SHANGRI-LA PLAZA

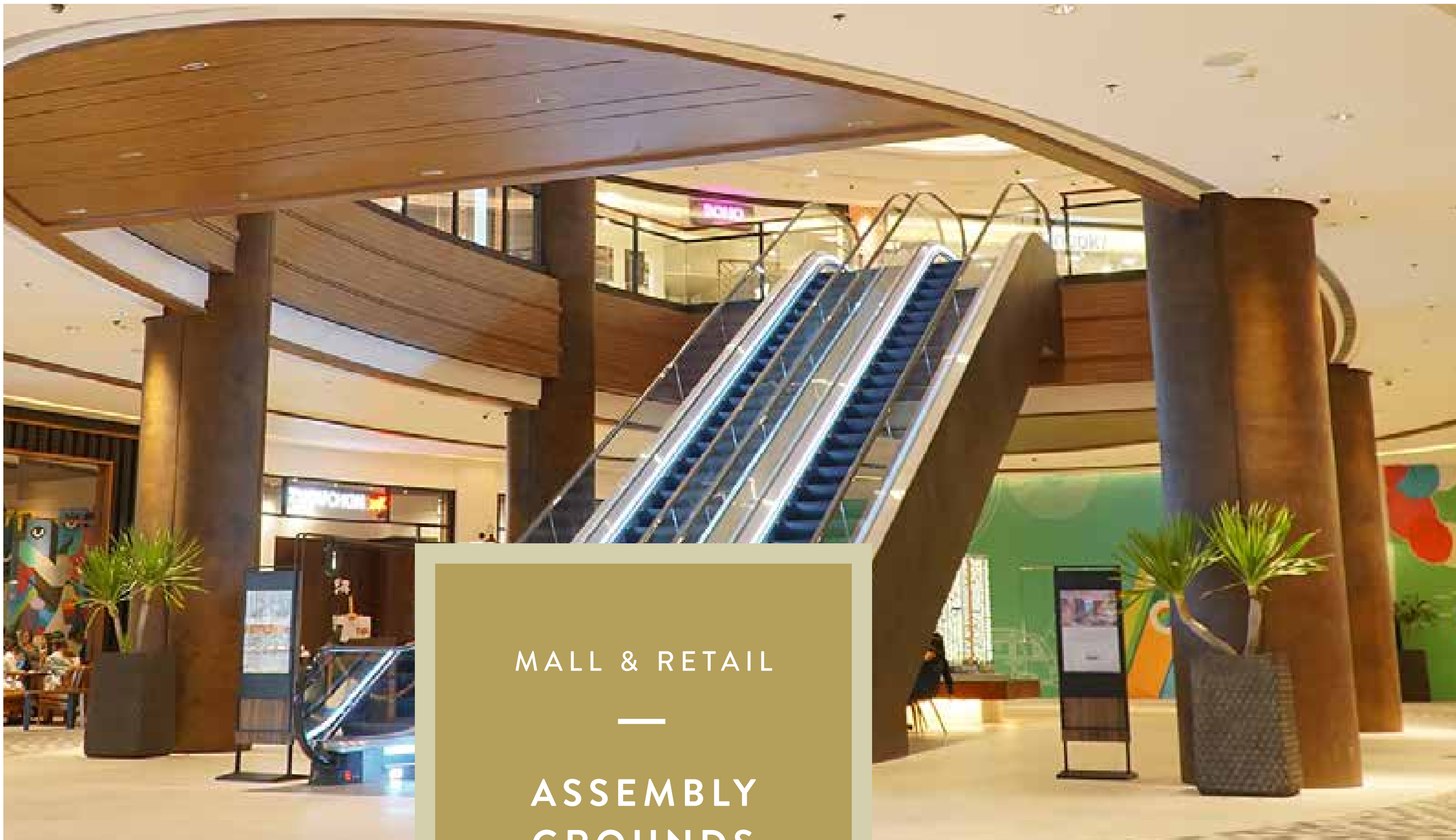
In 2021, the mall business continued to be disrupted with lockdowns and restrictions within Metro Manila. Despite the challenges presented, Shangri-La Plaza achieved an occupancy of 86%, bolstered by retail partners who continued to signify their confidence in Shangri-La Plaza and renewed their leases. One of the big brands that opened was MUJI, which launched its flagship store at the East Wing in March 2021. French fashion brand Agnes B. also opened in the 4th quarter of 2021, and popular local fashion brands Tili Dahli and Patton also opened pop-up shops. Modern Shanghai, a Chinese restaurant, also opened in the Main Wing.

Shangri-La Plaza's central location and accessibility proved to be an advantage as junior anchors and dining partners used their stores as fulfillment centers for online orders.

With the easing of restrictions, the mall re-opened the Red Carpet Cinema, The Chapel of Saint Padre Pio, and Kidzoona, which contributed to the increased traffic in the mall as families started to come back to dine and shop.

The mall continued its seasonal events, such as a virtual Halloween Party, and launched the Dine Al Fresco at Shang to welcome the Shang community safely in the mall with new dining hubs.

While 2021 continued to be a challenging year, Shangri-La Plaza managed to pull through with the support of its retail partners and the Shang community.



MALL & RETAIL

ASSEMBLY GROUNDS AT THE RISE

Located in North Makati, Assembly Grounds is a two-storey community mall integrated with The Rise Makati. This 5,000 square meter lifestyle and dining destination is a hip meeting place for those living in the residential complex, and young urban professionals working within the vicinity.

With a selection of over 50 carefully selected shops, services, and restaurants, Assembly Grounds perfectly captures the thriving North Makati (NOMA) crowd. Live concerts, bazaars, and al-fresco dining treats became instant staples in response to the government's health restrictions. Mall patrons can choose to have coffee, join friends for drinks, or dine with their family in any of the bars, restaurants, and coffee shops. On weekends residents can conveniently drop by their favorite beauty and wellness outlets, visit the health and fitness establishments, or run errands while exploring retail favorites like Daiso and True Value. Also open are Lomi Imua Spa, and the Raging Bull Burger. Things are definitely looking up at the newest lifestyle destination in Makati.

Assembly Grounds ended 2021 with an average occupancy rate of 82%.

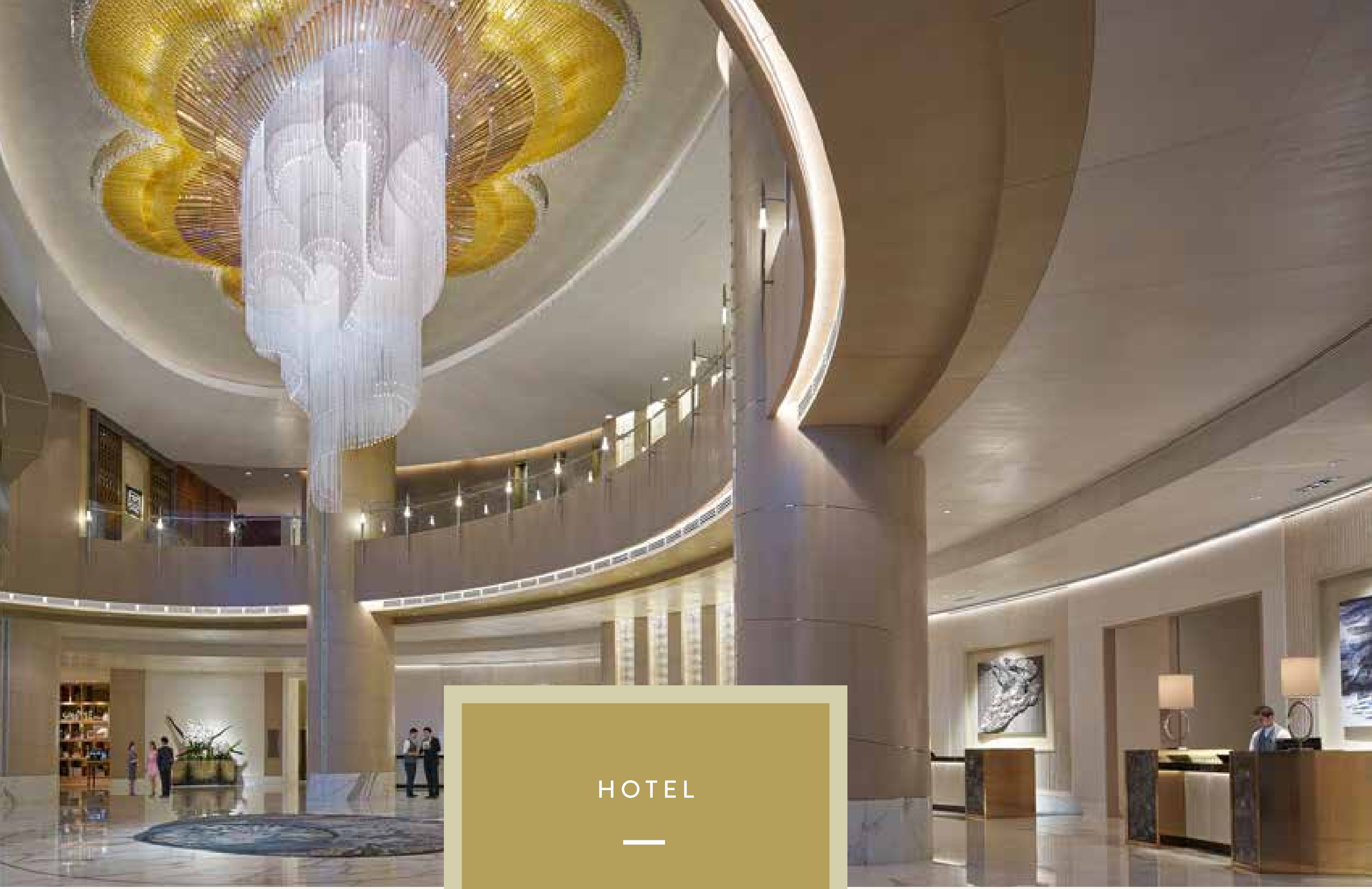
OFFICE LEASING

THE ENTERPRISE CENTER

In 2021, The Enterprise Center's (TEC) management team ensured that its facilities were well-maintained for tenants' safety and security. TEC never wavered in implementing its health and safety protocols, and made sure it carried out all planned property maintenance or enhancement programs.

As many industry sectors experienced a period of instability during the last two years, TEC was not spared some of the challenging effects of the prevailing pandemic. Some long-standing valued occupants were unable to sustain their operations or were forced to either downsize or by choosing to pre-terminate their leases during the year.

Nevertheless, because of its status as a premier office location, The Enterprise Center continued to attract reputable names in financial services, auditing, and infrastructure consultancy service firms, who made TEC their new headquarters. The year-end occupancy rate was at a respectable 81%, and rental revenues were at PhP1.25 billion.



HOTEL

SHANGRI-LA AT THE FORT

Despite the continuing global challenges that impacted the hospitality industry, Shangri-La The Fort, Manila demonstrated transformative business resilience. The hotel's management team innovated its revenue streams by introducing blended events, hybrid meetings, and boxed catering for virtual activations. In July 2021, it launched its own shopping platform designed to serve as the hub for commercial offers ranging from food and beverage retail to lifestyle vouchers, including food deliveries and gifting solutions on-site or online.

As the premier financial and recreational hub in Metro Manila, Bonifacio Global City is home to multinational companies, world-class retail destinations, upscale residential addresses, and luxury hotels and leisure venues. Shangri-La The Fort, Manila served as the destination of choice for returning Filipino nationals and travelers required to undergo mandatory quarantine. With periods of improved local conditions and the community opening up, more business units and service offerings were activated under lifestyle and recreation, with Kerry Sports Manila and eight dining destinations re-opening.

The hotel successfully secured key accolades, including Tripadvisor's Traveller's Choice, Conde Nast Readers' Choice Award, Business Traveller Asia Pacific's Business Hotel of the Year, Forbes Travel Guide, and DestinAsian's Readers' Choice Award, and was recognized as a Safety Seal certified establishment and maintains the Bureau Veritas SafeGuard™ Hygiene Excellence and Safety Label.

Restaurants & Bar

The restaurant concepts of Shangri-La The Fort continue to redefine the safe dining experience of the discerning gourmand, earning notable awards such as recognition in Tatler Philippines' Best Restaurant Guide for Canton Road, Raging Bull Chophouse and Bar, and Samba. For the second year, Raging Bull Chophouse & Bar was recognized with Wine Spectator's Best of Award of Excellence, while The Back Room continued mixing new drinks for clinks at home and was 51st in Asia's Top 100 Best Bars.

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SUSTAINABILITY REPORT

Shang Properties, Inc. (SPI) developed its annual sustainability performance report in accordance with Philippine Securities and Exchange Commission (SEC) Memorandum Circular No. 4, Series of 2019 and the Global Reporting Initiative (GRI) Standards.

Particular disclosure topics in this annual sustainability performance report are based on data from specific SPI subsidiaries, not all companies within the Group. This is attributable to its materiality and relevance to SPI's operations and the maturity of the data collection systems in place for reporting sustainability performance. In the following sections, we have provided specific information on such disclosures.

Our Materiality Process

The framework that SPI follows for materiality assessment has been consistent across the last three (3) years and continues to remain the same - providing the basis for priorities.

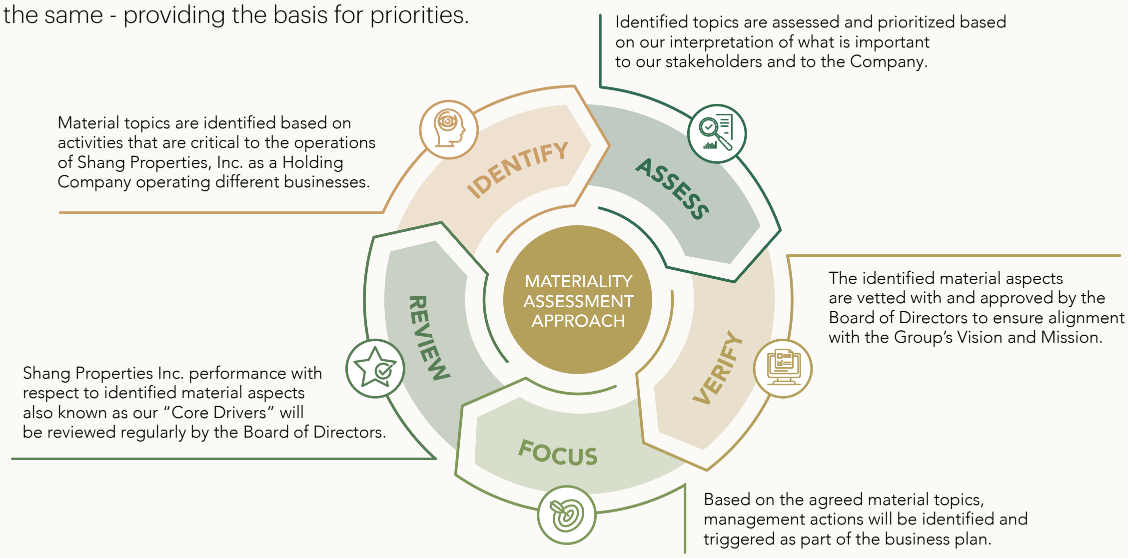


Figure 1 Materiality Assessment Approach

Sustainability Framework

Staying consistent with the materiality approach, the core drivers that form the Company's sustainability framework are reflected below. Employee Welfare and Responsible Business areas have come to the fore as evident in the reporting, keeping up with the current times of getting past the COVID-19 pandemic.

Figure 2 SPI Core Drivers

ECONOMIC

Economic Performance

Direct Economic Value Generated & Distributed

DISCLOSURE	UNIT	QUANTITY	
		2020	2021
Direct Economic Value Generated (Revenue)	PhP	5,047,369,943	4,975,849,040
Direct Economic Value Distributed:			
a. Operating Costs	PhP	2,987,374,564	2,839,145,484
b. Employee Wages and Benefits	PhP	227,029,031	278,096,849
c. Payments to Suppliers, Other Operating Costs	PhP	560,029,119	260,728,892
d. Dividends given to Stockholders and Interest Payments to Loan Providers	PhP	2,380,108,478	1,670,720,545
e. Taxes given to Government	PhP	99,547,506	151,153,259
f. Investments to Community (e.g. Donations, CSR)	PHP	106,478,173	128,253,014

Anti-Corruption

Training on Anti-Corruption Policies & Procedures

DISCLOSURE	UNIT	QUANTITY	
		2020	2021
Percentage of employees to whom the organization's anti – corruption policies and procedures have been communicated to	%	100	100
Percentage of business partners to whom the organization's anti – corruption policies and procedures have been communicated to	%	100	100
Percentage of directors and management that have received anti – corruption training	%	50	50
Percentage of employees that have received anti – corruption training	%	50	50

Incidents of Corruption

DISCLOSURE	UNIT	QUANTITY	
		2020	2021
Number of incidents in which directors were removed or disciplined for corruption	#	0	0
Number of incidents in which employees were dismissed or disciplined for corruption	#	0	0
Number of incidents when contracts with business partners were terminated due to incidents of corruption	#	0	0

Procurement Practices

Proportion of Spending on Local Suppliers

DISCLOSURE	UNIT	QUANTITY	
		2020	2021
Percentage of Procurement Budget Used for Significant Locations of Operations that is Spent on Local Suppliers	%	100	100

ENVIRONMENT

Resource Management

Energy Consumption within the Organization

DISCLOSURE	UNIT	QUANTITY	
		2020	2021
Renewable Resources	GJ	0	0
Gasoline	GJ	2,806	250
LPG	GJ	16,273	12,998
Diesel	GJ	4,419	11,910
Electricity	kWh	118,809,538	79,736,507

Energy Reduction within the Organization

DISCLOSURE	UNIT	QUANTITY	
		2020	2021
Renewable Resources	GJ	0	0
Gasoline	GJ	0	2,557
LPG	GJ	0	3,275
Diesel	GJ	0	-7,491
Electricity	kWh	30,602,575	39,073,031

Water Consumption

DISCLOSURE	UNIT	QUANTITY	
		2020	2021
Water Consumption	m^3	878,578	1,166,734
Water Recycled and Reused	m^3	252,362	181,886

Materials used by the Organization

DISCLOSURE	UNIT	QUANTITY	
		2020	2021
Materials Used by Weight/Volume			
Renewable	Kg or L	0	287,731
Non-Renewable	Kg or L	8,182,068	15,382,071

DISCLOSURE	UNIT	QUANTITY	
		2020	2021
Percentage of Recycled Input Materials Used to Manufacture the Organization's Primary Products and Services	%	0	0

Environmental Impact Management

Air Emission GHG

DISCLOSURE	UNIT	QUANTITY	
		2020	2021
Direct (Scope 1) GHG Emissions	Tonnes CO_2e	292*	617
Indirect (Scope 2) GHG Emissions	Tonnes CO_2e	75,088*	50,393
Emissions of ozone-depleting substances (ODS)	Tonnes	7	0

*Restatement of 2020 data: Direct (Scope 1) GHG Emissions – 292 Tonnes CO_2e; Indirect (Scope 2) GHG Emissions 75,088 Tonnes CO_2e
Instead of previously reported: Direct (Scope 1) GHG Emissions – 0 Tonnes CO_2e; Indirect (Scope 2) GHG Emissions 0 Tonnes CO_2e
The restatement was made due to GHG computation update

Air Pollutants

DISCLOSURE	UNIT	QUANTITY	
		2020	2021
NOX	kg	0.2984	0.02
SOX	kg	0.00012	0
Persistent Organic Pollutants (POPs)	kg	0	0
Volatile Organic Compounds (VOCs)	kg	0	0
Hazardous Air Pollutants (HAPs)	kg	0	0
Particulate Matter (PM)	kg	0	0

Solid Waste

DISCLOSURE	UNIT	QUANTITY	
		2020	2021
Total Solid Waste Generated	kg	1,523,191	3,282,063
Reusable	kg	0	-
Recyclable	kg	325,127	384,884
Composted	kg	0	7,769
Incinerated	kg	0	-
Residuals / Landfilled	kg	1,198,064	2,893,111

DISCLOSURE	UNIT	QUANTITY	
		2020	2021
Total Weight of Hazardous Waste Generated	kg	5,058	12,959
Total Weight of Hazardous Waste Transported	kg	560	7,013

Effluents

DISCLOSURE	UNIT	QUANTITY	
		2020	2021
Total Volume of Water Discharges	m^3	438,366	789,430
Percent of Wastewater Recycled	%	0	7%

Environmental Compliance

Non-Compliance with Environmental Laws & Regulations

DISCLOSURE	UNIT	QUANTITY	
		2020	2021
Total Amount of Monetary Fines for Non – Compliance with Environmental Laws and / or Regulations	PhP	0	0
No. of Non – Monetary Sanctions for Non – Compliance with Environmental Laws and / or Regulations	#	0	0
No. of Cases Resolved through Dispute Resolution Mechanism	#	0	0

SOCIAL

Employee Management

Employee Data Benefits

DISCLOSURE	UNIT	QUANTITY	
		2020	2021
Total Number of Employees	#	1080	916
a. Number of Female Employees	#	502	431
b. Number of Male Employees	#	578	485
Attrition Rate	Rate	4.60%	3%
Ratio of Lowest Paid Employee Against Minimum Wage	Ratio	1:1.35	1:1.29

Employee Benefits

DISCLOSURE	Y/N		Female Employees Who Availed for the Year (%)		Male Employees Who Availed for the Year (%)	
	2020	2021	2020	2021	2020	2021
SSS	Y	Y	56	58	53	57
PhilHealth	Y	Y	51	52	51	53
PAG - IBIG	Y	Y	53	54	52	54
Parental Leaves	Y	Y	6	5	4	4
Vacation Leaves	Y	Y	100	100	100	100
Sick Leaves	Y	Y	79	68	778	65
Medical Benefits (Aside from PhilHealth)	Y	Y	54	76	53	68
Housing Assistance (Aside from PAG-IBIG)	N	N	0	0	0	0
Retirement Fund (Aside from SSS)	Y	Y	2	0.2	1	0.2
Further Education Support	N	N	0	0	0	0
Company Stock Options	N	N	0	0	0	0
Telecommuting	N	N	0	0	0	0
Flexible – Working Hours	Y	Y	60	52	54	52

Employee Training and Development

DISCLOSURE	UNIT	QUANTITY	
		2020	2021
Total Training Hours Provided to Employees			
a. Female Employee	Hours	28,224	8,548
b. Male Employees	Hours	38,238	12,124

DISCLOSURE	UNIT	QUANTITY	
		2020	2021
Average Training Hours Provided to Employees			
a. Female Employees	Hrs/Employee	56	7
b. Male Employees	Hrs/Employee	66	8

Labor - Management Relations

DISCLOSURE	UNIT	QUANTITY	
		2020	2021
% of Employees Covered with Collective Bargaining Agreements	%	N/A	N/A
Number of Consultations Conducted with Employees Concerning Employee – Related Policies	#	21	6

Diversity & Equal Opportunity

DISCLOSURE	UNIT	QUANTITY	
		2020	2021
% of Female Workers in the Workforce	%	46	47
% Male Workers in the Workforce	%	54	53
Number of Employees from Indigenous Communities and/ or Vulnerable Sector	#	12	28

Workplace Condtions | Labor Standards | Human Rights

Occupational Health & Safety

DISCLOSURE	UNIT	QUANTITY	
		2020	2021
Safe Man-Hours	Man-Hours	743,189	579,103
No. of Work – Related Injuries	#	17	9
No. of Work – Related Fatalities	#	0	-
No. of Work – Related Ill-Health	#	18	8
No. of Safety Drills	#	372	254

Labor Standards and Human Rights

DISCLOSURE	UNIT	QUANTITY	
		2020	2021
No. of Legal Actions or Employees Grievance involving Forced or Child Labor	#	0	0

Supply Chain Management

TOPIC	Y/N	
	2020	2021
Environmental Performance	Y	Y
Forced Labor	Y	Y
Child Labor	Y	Y
Human Rights	Y	Y
Bribery and Corruption	Y	Y

Customer Management

Customer Satisfaction

DISCLOSURE	SCORE		DID A THIRD PARTY CONDUCT THE CUSTOMER SATISFACTION STUDY? (Y / N)	
	2020	2021	2020	2021
Customer Satisfaction	91%	90%	Y	Y

Health & Safety

DISCLOSURE	UNIT	QUANTITY	
		2020	2021
No. of Substantiated Complaints on Product or Service Health and Safety	#	4,886	2827
No. of Complaints Addressed	#	4,886	2827

Customer Privacy

DISCLOSURE	UNIT	QUANTITY	
		2020	2021
No. of Substantiated Complaints on Customer Privacy	#	0	1
No. of Complaints Addressed	#	0	1
No. of Customers, Users, and Account Holders whose Information is Used for Secondary Purposes	#	0	0

Data Security

DISCLOSURE	UNIT	QUANTITY	
		2020	2021
No. of Data Breaches, including Leaks, Thefts, and Losses of Data	#	0	0

To view the full Shang Properties, Inc.
2021 Sustainability Report, please scan the code.

United Nations Sustainable Development Goals

Shang Properties Inc. (SPI), with the intention to develop its contributions to UN SDG, is dedicated to optimize its operations, strategies and management approach related to economic, environmental and social aspects affecting its stakeholders and the community. For 2021, SPI identified contributions to six (6) SDGs and their summary is articulated below for easy reference.

ECONOMIC

Material Topic/Disclosure: Economic Performance

As a key participant in the Philippine property market and one of the leading employers in the hospitality industry, SPI contributes to nation-building by generating employment, providing opportunities for suppliers, tax revenues for governments and regular community investments through donations and CSR.

PhP128.2M
Investments to community

PhP151.1M
Taxes paid

916
Total no. of organic employees

ENVIRONMENT

Material Topic/Disclosure: Resource Management, Environmental Impact Management and Environmental Compliance

Energy, water and materials (i.e. wood, steel and cement etc.) are the usual resources used in SPI property development projects. Depletion of natural resources will always be a local and global concern, thus, SPI proactively implements efficient management of resources through conservation programs and waste reduction initiatives. Two (2) SPI subsidiaries have received notable efforts and recognitions such as ASEAN Energy Awards, ASEAN Efficient Building, and LEED Certification.

33%
Energy Reduction

287.731 kg
Renewable Materials Used

32%
GHG Emission Reduction

384,883 kg
Waste Recycled

100%
Environmental Compliance

0
Environmental Fines and Sanctions

SOCIAL

Material Topic/Disclosure: Employee Management, Workplace Conditions, Labor Standards and Human Rights

SPI recognizes and accepts its duties in providing a safe and healthy environment to all stakeholders, strict compliance with all applicable relevant and existing labor laws, rules, and regulations of the Department of Labor and Employment (DOLE) and all other appropriate government entities. SPI consistently supports diversity and equal opportunity and has created an inclusive workplace for all, regardless of gender, ethnicity, background, sexual orientation and beliefs.

579,103
Safe man-hours

47%
Female workers in the workforce

254
No. of Safety drills

0
Work-related fatalities

0
Employee Grievance on Forced or Child Labor

28
No. of employees from indigenous communities and vulnerable sector

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.

Jose Juan Z. Jugo joined Shang Properties, Inc. last June 2019 as Executive Vice President. From 2017 to 2019, he was President and CEO of MCT Bhd, a publicly listed full line property developer based in Selangor, Malaysia and owned 67% by Ayala Land, Inc. From 2000 to 2017, he was in the senior management team of Ayala Land, Inc. where from 2011 to 2017, he served as the Managing Director of Ayala Land Premier. He graduated from De La Salle University, Manila in 1994. He then pursued his post-graduate studies in Marketing and Commercial Management ESEM, in Madrid, Spain.

Wolfgang Krueger joined Shang Properties, Inc. in November 2019. He was the Executive Vice President for Shangri-La International Hotels Limited and over-seeing all the Shangri-La Hotels in Hong Kong, Philippines, Taiwan, Japan, Mongolia, Australia and Fiji. He joined the Shangri-La Group in 2001 and has been with the Kuok group for 20 years.

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 from 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.

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, major 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 31 December 2021.

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 these meetings for the last three (3) years are as follows:

	2022*	2021	2020
Number of Board Meetings	1	4	4
Attendance			
Executive	100%	95%	94%
Independent Non-Executive	100%	90%	88%
Average	100%	93%	90%

*Meetings are held in the year-to-date
**Non-resident directors attended by teleconference, Zoom or other acceptable modes under SEC rules

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, Karlo Marco P. Estavillo, Jose Juan Z. Jugo, Wolfgang Krueger, Maximo G. Licuaco III, Benjamin I. Ramos, and Wilfred Shan Chen Woo. 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.

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.

DELEGATION 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 31 December 2021, 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 this page 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 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:

Audit Committee Meetings	2022	2021	2020
No. of Meetings	1	4	3
Attendance	100%	92%	78%

*Meetings are held in the year-to-date
**Non-resident directors attended by teleconference, Zoom or other acceptable modes under SEC rules

Auditor's Remuneration

During the financial year ended 31 December 2021, 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 PhP4,510,250.

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 to 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 plan 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 Senior Management, the Chief Financial Officer, and the external auditors.

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 2021 Annual Stockholders' Meeting of the Company was held on September 7, 2021 via video conference.

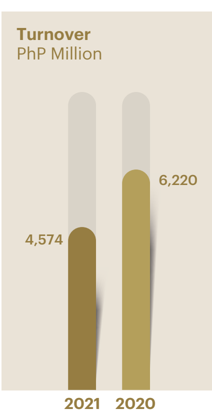
The following resolutions were passed during the meeting:

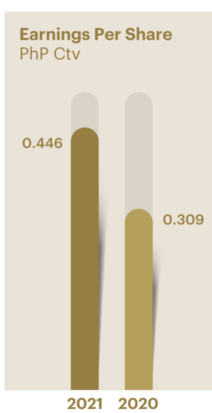
1. Approval of the Minutes of the Annual Meeting of the Stockholders held on November 18, 2020.
2. Election of Directors for the year 2021-2022
3. Appointment of External Auditor

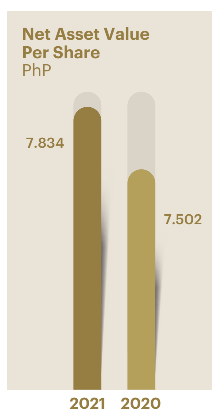
FINANCIAL HIGHLIGHTS

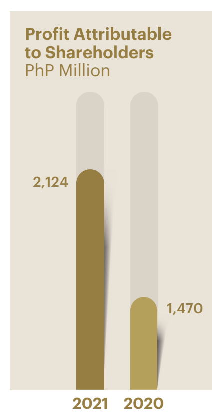
TWO-YEAR REVIEW

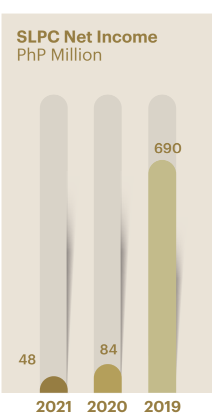
		2021	2020	Change
Turnover	(PhP M)	4,574	6,220	-26.5%
Profit attributable to shareholders of the Parent Company	(PhP M)	2,124	1,470	44.5%
Equity attributable to shareholders of the Parent Company	(PhP M)	37,307	35,724	4.4%
Earnings per share attributable to shareholders of the Parent Company	(PhP Ctv)	0.446	0.309	44.5%
Net asset value per share attributable to shareholders of the Parent Company	(PhP)	7.834	7.502	4.4%
Share price at year end	(PhP)	2.610	2.710	-3.7%
Price earnings ratio at year end	(Ratio)	5.851	8.779	-33.3%
Market capitalisation at year end	(PhP M)	11,958	12,958	-12.8%
Dividend per share	(PhP Ctv)	0.124	0.157	-20.8%
Dividend payout ratio	(%)	27.8%	50.7%	-45.2%
Dividend yield at year end	(%)	4.8%	5.8%	-17.7%
Operating Margin	(%)	43.9%	41.5%	5.7%
Return on equity	(%)	5.7%	4.1%	38.4%
Return on total financing	(%)	5.9%	4.4%	34.9%
Interest cover	(Ratio)	12.018	14.074	-14.6%
Gross interest as a % of total borrowings	(%)	1.6%	2.4%	-34.4%
Current ratio	(Ratio)	0.9	1.2	-19.9%
Total Debt to Equity	(%)	48.5%	51.6%	-5.9%
Total Bank Loans to Equity	(%)	17.9%	14.1%	27.2%

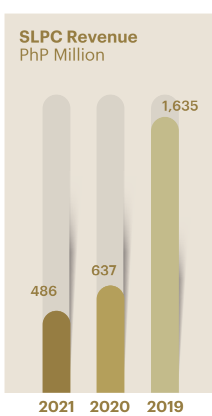


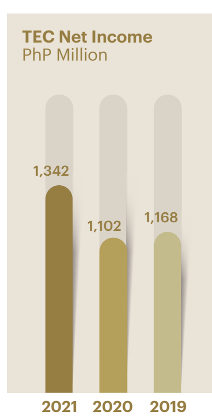


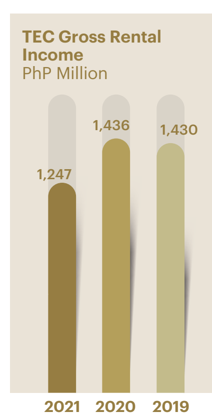












STOCK PERFORMANCE & SHAREHOLDER MATTERS

STOCK BEHAVIOR: QUARTERLY SHARE PRICE

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

2021	HIGH (PhP)	LOW (PhP)
First Quarter	2.87	2.50
Second Quarter	2.78	2.53
Third Quarter	2.71	2.55
Fourth Quarter	2.71	2.54

2020	HIGH (PhP)	LOW (PhP)
First Quarter	3.31	2.45
Second Quarter	2.99	2.55
Third Quarter	2.74	2.50
Fourth Quarter	2.75	2.65

2019	HIGH (PhP)	LOW (PhP)
First Quarter	3.20	3.00
Second Quarter	3.09	2.95
Third Quarter	3.47	2.95
Fourth Quarter	3.33	3.03

DIVIDENDS

For the year 2021 the Board of Directors declared total cash dividends of PhP590 million (2020:PhP745 million)

SHAREHOLDER PROFILE

As of 31 December 2021, the Company had 5,160 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 31 December 2021 are:

RANK	SHAREHOLDERS	NO. OF SHARES	PERCENTAGE %
1	TRAVEL AIM INVESTMENT B.V.*	1,648,869,372	34.61
2	IDEAL SITES AND PROPERTIES, INC.	1,465,144,626	30.75
3	PCD NOMINEE CORPORATION (FILIPINO)	1,012,437,544	21.25

**This Company is a wholly owned subsidiary of Kerry Properties Limited*

10-YEAR FINANCIAL SUMMARY

	2021	2020	2019	2018
Profit and loss account	Php '000	Php '000	Php '000	Php '000
Turnover	4,573,925	6,220,489	11,361,826	11,180,487
Operating profit	657,510	1,085,172	4,031,015	3,721,551
Interest expense & bank charges	(120,052)	(139,647)	(272,339)	(358,742)
Share in profit (loss) of associated companies	404,707	185,534	101,237	-
Profit before taxation	1,322,676	1,825,796	4,476,579	4,832,376
Taxation	867,600	(404,216)	(1,054,810)	(1,271,762)
Profit after taxation	2,190,276	1,421,580	3,421,769	3,560,614
Minority interests	(66,214)	48,385	(365,767)	(548,286)
Profit attributable to shareholders	2,124,063	1,469,965	3,056,002	3,012,328
Assets and liabilities				
Fixed assets	46,210,937	46,598,466	47,202,480	46,761,767
Associated company	4,318,124	2,317,911	2,121,615	1,000,389
Other assets	1,859,339	2,597,366	1,943,490	1,543,107
Net current assets/(liabilities)	(929,421)	691,743	1,183,719	2,593,483
	51,458,978	52,205,486	52,451,305	51,898,746
Long term liabilities	(8,519,955)	(10,531,118)	(11,181,166)	(12,832,387)
Total equity	42,939,023	41,674,367	41,270,139	39,066,359

2017	2016	2015	2014	2013	2012
					as restated
Php '000	Php '000	Php '000	Php '000	Php '000	Php '000
13,770,215	10,343,021	7,391,108	6,449,539	6,330,609	4,599,906
4,939,001	4,021,601	4,005,484	3,188,806	2,666,310	1,768,040
(331,963)	(273,494)	(201,559)	(227,066)	(184,962)	(172,279)
(4,100)	(4,313)	70,658	(9,693)	(4,674)	29,491
5,684,611	4,679,868	4,767,165	4,114,696	3,054,530	2,431,575
(1,464,529)	(1,204,218)	(1,189,139)	(995,502)	(751,430)	(536,193)
4,220,082	3,475,650	3,578,027	3,119,194	2,303,100	1,895,382
(873,916)	(569,726)	(728,214)	(383,818)	(291,827)	(248,905)
3,346,166	2,905,925	2,849,813	2,735,376	2,011,273	1,646,477
42,283,683	39,702,962	41,890,783	38,389,161	27,295,207	25,506,150
501,936	495,636	491,948	410,790	2,441,310	2,514,446
1,123,249	150,264	63,411	68,494	37,286	42,956
8,453,323	12,039,829	9,452,538	9,612,668	5,257,295	4,563,719
52,362,191	52,388,691	51,898,681	48,481,112	35,031,099	32,627,270
(15,837,950)	(19,050,222)	(19,597,098)	(20,696,779)	(10,240,307)	(9,474,933)
36,524,241	33,338,468	32,301,583	27,784,333	24,790,791	23,152,338

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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, 2021 and 2020, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Isla Lipana and Co., the independent auditors appointed by the stockholders for the period December 31 , 2021 and 2020, respectively, have audited the consolidated financial statements of the company in accordance with Philippine Standards on Auditing, and in 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

Wilfred Shan Chen Woo
Executive Assistant to the Chairman of the Board

Karlo Marco P. Estavillo
Treasurer/Chief Operating Officer and Chief Finance Officer

Signed this 24th day of March, 2022

AUDIT COMMITTEE REPORT

For the year ended 31 December 2021

The Audit Committee of The Board has been established since 2002 and 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 31 December 2021.

(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 31 December 2021.
(iv) Prior to the actual commencement of the audit, the external auditor discussed the proposed scope of work and approach of the audit with the Audit Committee. 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 31 December 2021, 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 31 December 2021 prior to recommending them to the Board for approval.

Members of the Audit Committee:

Mr. Benjamin Ivan S. Ramos
Chairman

Mr. Maximo G. Licauco III
Member

Ms. Cynthia R. Del Castillo
Member

Isla Lipana & Co.

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, 2021 and 2020, and the consolidated financial performance and consolidated cash flows for each of the three years in the period ended December 31, 2021 in accordance with Philippine Financial Reporting Standards (PFRS), as modified by the application of the financial reporting reliefs issued and approved by the Securities and Exchange Commission (SEC), as described in Note 31 to the consolidated financial statements.

What we have audited

The consolidated financial statements of the Group comprise:

- the consolidated statements of financial position as at December 31, 2021 and 2020;
- the consolidated statements of comprehensive income for each of the three years in the period ended December 31, 2021;
- the consolidated statements of changes in equity for each of the three years in the period ended December 31, 2021;
- the consolidated statements of cash flows for each of the three years in the period ended December 31, 2021; 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.

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Emphasis of Matter

We draw attention to Note 31 to the consolidated financial statements, which describes the basis of preparation of the financial statements. The financial statements as at and for the year ended December 31, 2021 have been prepared in accordance with PFRS, as modified by the application of the financial reporting reliefs issued and approved by the SEC in response to the COVID-19 pandemic. The details of the financial reporting reliefs availed by the Group and the impact on the consolidated financial statements are discussed in detail in Note 31. Our opinion is not modified in respect of this matter.

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; and
- Revenue recognition on condominium sales based on percentage of completion (PoC).

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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 discussion on critical accounting estimates and assumptions. As at December 31, 2021, total investment properties, carried at fair value, amounts to P35.4 billion which accounts for about 55% of the total consolidated assets of the Group. The determination of fair values by an external appraiser involves significant estimation using assumptions such as property prices for similar market listing in the area, occupancy rate, rental rate and discount rate. A fair value assessment is performed regularly based on the requirements of PFRS 13, Fair Value Measurement, and Philippine Accounting Standards (PAS) 40, Investment Property.	We have addressed the matter by obtaining the latest appraisal report. We have assessed the appropriateness of the valuation methodology used as well as the reasonableness of the significant inputs and assumptions used in the fair valuation. In particular, comfort over the reliability of the appraiser reports was obtained through independent verification of significant 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 on leasing transactions of comparable properties; and • discount rate by comparing to published market yields. We have also assessed the reasonableness of these assumptions given the current market and economic conditions. We have evaluated the competence, capabilities and objectivity of the independent appraiser engaged by the Group by reviewing its profile, licenses and client portfolio. We have also verified the appropriateness and sufficiency of the disclosures in accordance with PFRS 13 and PAS 40. We have concluded that the valuation methodology used by the Group is appropriate and the significant inputs and assumptions used in the valuation are reasonable. We did not note any significant issues in the evaluation of the work of the independent appraiser and of the appropriateness and sufficiency of the disclosures.

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Key Audit Matters	How our Audit Addressed the Key Audit Matters
b) Revenue recognition on condominium sales based on PoC as a measure of progress	
Refer to Note 6 to the consolidated financial statements for the discussion on critical accounting estimates and assumptions. The revenue arising from condominium sales for the year ended December 31, 2021 amounts to P1.95 billion which accounts for about 43% of the consolidated revenues. It is therefore, material to the consolidated financial statements.	We have addressed the matter by understanding the process employed by the Group in estimating the actual physical completion of the condominium project as performed by independent quantity surveyors. We have evaluated the competence, capabilities and objectivity of independent quantity surveyors engaged by the Group by reviewing their profile, professional licenses and client portfolio.
Revenue from sale of condominium is recognized over time using the output method in accordance with the guidance set in PFRS 15, *Revenue from contracts with customers*, and Philippine Interpretations Committee Questions and Answers (PIC Q&A) 2016-04. Under the output method, revenue is calculated with reference to the PoC of the project. In the case of the Group, PoC is determined based on the actual physical completion of the project. Hence, revenue recognition on condominium sales require significant judgment and estimation.	We have examined the detailed accomplishment reports that provide information and analysis about the status of ongoing projects. We have also conducted interviews with project engineers. Furthermore, as part of our analytical procedures, we compared PoC reported by surveyors with PoC derived based on total actual costs incurred-to-date in relation to the total estimated project cost. We inspected relevant contracts, contractors' billings, invoices, and other supporting documents to verify the reasonableness of the recorded actual costs. We have concluded that revenues from condominium sales are appropriately recorded in accordance with the related standards. We did not note any significant issues in relating to the work of the independent quantity surveyors, examination of detailed accomplishment reports, interviews with project engineers, analytical procedures and inspection of supporting documents.

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, as modified by the application of the financial reporting reliefs issued and approved by the SEC, as described in Note 31 to the financial statements, 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.

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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 accordance with PFRS, as modified by the application of the financial reporting reliefs issued and approved by the SEC, as described in Note 31 to the financial statements.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Zaldy D. Aguirre.

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Zaldy D. Aguirre
Partner
CPA Cert No. 105660
P.T.R. No. 0024447, issued on January 6, 2022, Makati City
SEC A.N. (individual) as general auditors 105660-SEC, Category A, valid to audit 2020 to 2024 financial statements
SEC A.N. (firm) as general auditors 0142-SEC, Category A; valid to audit 2020 to 2024 financial statements
TIN 221-755-698
BIR A.N. 08-000745-77-2020, issued on December 14,2020; effective until December 13, 2023
BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City
March 24, 2022

Shang Properties, Inc. and Subsidiaries

Consolidated Statements of Financial Position
As at December 31, 2021 and 2020
(All amounts in Philippine Peso)

	Notes	2021	2020
ASSETS			
Current assets			
Cash and cash equivalents	3	1,376,480,154	1,549,970,914
Financial assets at fair value through profit or loss	4	30,815,974	33,626,210
Trade and other receivables, net	5	4,380,741,449	4,996,338,314
Properties held for sale	6	3,664,986,160	3,413,065,216
Prepaid taxes and other current assets	7	1,947,431,627	1,663,214,222
Total current assets		11,400,455,364	11,656,214,876
Non-current assets			
Investments in and advances to associates and a joint venture	8	4,318,123,784	2,317,911,271
Investment properties	10	35,384,993,640	34,913,873,065
Financial assets at fair value through other comprehensive income, net	11	796,968,495	797,568,496
Property and equipment, net	12	10,813,860,164	11,684,592,560
Goodwill	13	269,870,864	269,870,864
Deferred income tax assets, net	25	615,730,128	465,150,772
Other non-current assets	14	176,769,549	1,064,775,797
Total non-current assets		52,376,316,624	51,513,742,825
Total assets		63,776,771,988	63,169,957,701
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and other current liabilities	15	4,774,073,850	5,683,994,606
Current portion of:			
Installment payable	16	47,883,236	142,751,080
Bank loans	16	6,610,111,377	4,283,333,333
Deposits from tenants	17	845,472,994	614,727,181
Deferred lease income	17	18,829,063	41,298,111
Income tax payable	25	54,637,882	124,336,401
Dividends payable		61,897,055	74,031,392
Total current liabilities		12,412,905,457	10,964,472,104
Non-current liabilities			
Accrued employee benefits	24	64,676,831	89,798,059
Bank loans, net of current portion	16	1,095,786,300	1,596,172,131
Deferred income tax liabilities, net	25	6,878,525,105	8,018,041,563
Advance rentals, net of current portion	29	156,688,857	232,961,590
Deposits from tenants, net of current portion	17	193,502,993	540,045,750
Deferred lease income, net of current portion	17	35,663,151	54,099,337
Total non-current liabilities		8,424,843,237	10,531,118,430
Total liabilities		20,837,748,694	21,495,590,534
Equity			
Share capital	18	4,764,058,982	4,764,058,982
Share premium	18	834,439,607	834,439,607
Treasury shares	18	(6,850,064)	(6,850,064)
Equity reserves		(141,132,606)	(141,132,606)
Other comprehensive income	11,24	268,806,682	219,550,748
Retained earnings	18	31,587,543,780	30,053,959,054
Total equity attributable to shareholders of the Parent Company		37,306,866,381	35,724,025,721
Non-controlling interests	9	5,632,156,913	5,950,341,446
Total equity		42,939,023,294	41,674,367,167
Total liabilities and equity		63,776,771,988	63,169,957,701

The notes on pages 49 to 121 are integral part of these consolidated financial statements.

Shang Properties, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income
For each of the three years in the period ended December 31, 2021
(All amounts in Philippine Peso)

	Notes	2021	2020	2019
Revenues				
Condominium sales		1,951,230,634	3,009,946,505	4,428,339,649
Rental and cinema	10	1,820,269,869	2,128,780,051	3,353,266,040
Hotel operation		802,424,771	1,081,762,155	3,580,220,504
		4,573,925,274	6,220,488,711	11,361,826,193
Cost of sales and services				
Condominium sales		957,901,740	1,685,000,495	2,696,938,381
Rental and cinema		81,441,312	100,248,382	169,393,067
Hotel operation		1,525,725,890	1,851,378,118	3,212,676,342
	20	2,565,068,942	3,636,626,995	6,079,007,790
Gross profit		2,008,856,332	2,583,861,716	5,282,818,403
Operating expenses				
Staff costs	21	581,064,680	530,048,537	476,405,566
Taxes and licenses		182,533,606	182,712,177	209,219,439
Depreciation and amortization	12	39,113,187	38,416,213	33,625,702
Insurance		8,489,829	7,145,262	17,695,659
Other operating expenses	22	540,145,085	740,367,083	514,856,663
		1,351,346,387	1,498,689,272	1,251,803,029
Other income (charges)				
Foreign exchange gains (losses), net	3	4,524,986	(3,729,088)	(7,757,080)
Gain on fair value adjustment of investment properties, net	10	-	-	276,697,387
Other income, net	23	181,346,176	315,522,194	130,139,136
		185,871,162	311,793,106	399,079,443
Income from operations		843,381,107	1,396,965,550	4,430,094,817
Finance income, net				
Finance income	23	194,639,616	382,943,112	217,586,055
Finance costs	23	(120,052,078)	(139,646,572)	(272,338,911)
		74,587,538	243,296,540	(54,752,856)
Share in net income of associates and a joint venture	8	404,707,422	185,533,552	101,237,114
Income before income tax		1,322,676,067	1,825,795,642	4,476,579,075
Income tax benefit (expense)	25	867,600,077	(404,215,860)	(1,054,810,382)
Net income for the year		2,190,276,144	1,421,579,782	3,421,768,693
Other comprehensive income				
Items that will be subsequently reclassified to profit or loss				
Translation adjustments		208,393	(291,113)	(932,813)
Items that will not be subsequently reclassified to profit or loss				
(Decrease) increase in fair value of equity investments at fair value through other comprehensive income, net of tax	11	(1,425,004)	(4,460,505)	19,943,650
Remeasurement gain (loss) on retirement benefit obligation, net of tax		55,554,468	(12,699,757)	(2,815,335)
		54,337,857	(17,451,375)	16,195,502
Total comprehensive income for the year		2,244,614,001	1,404,128,407	3,437,964,195
Net income attributable to:				
Shareholders of the Parent Company		2,124,062,600	1,469,965,012	3,056,001,858
Non-controlling interests	9	66,213,544	(48,385,230)	365,766,835
		2,190,276,144	1,421,579,782	3,421,768,693
Total comprehensive income attributable to:				
Shareholders of the Parent Company		2,173,318,534	1,453,332,976	3,072,213,653
Non-controlling interests	9	71,295,467	(49,204,569)	365,750,542
		2,244,614,001	1,404,128,407	3,437,964,195
Basic and diluted earnings per share attributable to shareholders of the Parent Company	26	0.446	0.309	0.642

The notes on pages 49 to 121 are integral part of these consolidated financial statements.

Shang Properties, Inc. and Subsidiaries

Consolidated Statements of Changes in Equity
For each of the three years in the period ended December 31, 2021
(All amounts in Philippine Peso)

	Shareholders of the Parent Company											
				Other comprehensive income								
	Share capital (Note 18)	Share premium (Note 18)	Treasury shares (Note 18)	Cumulative changes in fair value of financial assets at FVOCI (Note 11)	Cumulative translation adjustments	Remeasurement loss on defined benefit plan (Note 24)	Total Other comprehensive income	Equity reserves	Retained earnings	Parent's Total Equity	Non-controlling interests (Note 9)	Total equity
Balances at January 1, 2019	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	32,779,435,759	6,286,923,473	39,066,359,232
Comprehensive income												
Net income for the year	-	-	-	-	-	-	-	-	3,056,001,858	3,056,001,858	365,766,835	3,421,768,693
Other comprehensive income (loss)	-	-	-	19,943,650	(932,813)	(2,799,042)	16,211,795	-	-	16,211,795	(16,293)	16,195,502
Total comprehensive income (loss)	-	-	-	19,943,650	(932,813)	(2,799,042)	16,211,795	-	3,056,001,858	3,072,213,653	365,750,542	3,437,964,195
Transaction with owners												
Cash dividends declared (Note 19)	-	-	-	-	-	-	-	-	(835,716,549)	(835,716,549)	(398,468,000)	(1,234,184,549)
Balances at 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	35,015,932,863	6,254,206,015	41,270,138,878
Comprehensive income												
Net income for the year	-	-	-	-	-	-	-	-	1,469,965,012	1,469,965,012	(48,385,230)	1,421,579,782
Other comprehensive income (loss)	-	-	-	(4,460,505)	(291,113)	(11,880,418)	(16,632,036)	-	-	(16,632,036)	(819,339)	(17,451,375)
Total comprehensive income (loss)	-	-	-	(4,460,505)	(291,113)	(11,880,418)	(16,632,036)	-	1,469,965,012	1,453,332,976	(49,204,569)	1,404,128,407
Transaction with owners												
Cash dividends declared (Note 19)	-	-	-	-	-	-	-	-	(745,240,118)	(745,240,118)	(254,660,000)	(999,900,118)
Balances at December 31, 2020	4,764,058,982	834,439,607	(6,850,064)	258,709,161	(1,836,350)	(37,322,063)	219,550,748	(141,132,606)	30,053,959,054	35,724,025,721	5,950,341,446	41,674,367,167
Comprehensive income												
Net income for the year	-	-	-	-	-	-	-	-	2,124,062,600	2,124,062,600	66,213,544	2,190,276,144
Other comprehensive income (loss)	-	-	-	(1,425,004)	208,393	50,472,545	49,255,934	-	-	49,255,934	5,081,923	54,337,857
Total comprehensive income (loss)	-	-	-	(1,425,004)	208,393	50,472,545	49,255,934	-	2,124,062,600	2,173,318,534	71,295,467	2,244,614,001
Transaction with owners												
Cash dividends declared (Note 19)	-	-	-	-	-	-	-	-	(590,477,874)	(590,477,874)	(389,480,000)	(979,957,874)
Balances at December 31, 2021	4,764,058,982	834,439,607	(6,850,064)	257,284,157	(1,627,957)	13,150,482	268,806,682	(141,132,606)	31,587,543,780	37,306,866,381	5,632,156,913	42,939,023,294

The notes on pages 49 to 121 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, 2021
(All amounts in Philippine Peso)

	Notes	2021	2020	2019
Cash flows from operating activities				
Income before income tax		1,322,676,067	1,825,795,642	4,476,579,075
Adjustments for:				
Depreciation and amortization	12	995,486,575	1,112,674,834	1,115,107,861
Finance costs	23	119,436,253	138,903,721	271,398,458
Provision for probable losses	22	-	100,150,239	-
Retirement benefit expense	24	42,045,731	38,105,630	37,765,035
Provision for restructuring	22	-	33,985,773	-
Loss on fair value adjustment of financial assets at fair value through profit or loss	4, 23	2,810,236	2,652,634	5,145,472
Provision for doubtful accounts	5, 22	322,003	9,113,149	170,000
Unrealized foreign exchange (gain) loss	3	(6,359,609)	2,522,490	4,958,704
Gain on sale of property and equipment	23	(7,885,500)	(357,806)	(1,050,728)
Amortization of deferred lease income	17	(34,403,409)	(40,478,445)	(37,686,644)
Dividend income	23	(11,658,709)	(13,002,470)	(55,541,739)
Share in net income of associates and a joint venture	8	(404,707,422)	(185,533,552)	(101,237,114)
Finance income	23	(194,639,616)	(382,943,112)	(217,586,055)
Gain on fair value adjustment of investment properties	10	-	-	(276,697,387)
Operating income before working capital changes		1,823,122,600	2,641,588,727	5,221,324,938
Changes in working capital:				
Trade and other receivables		(89,825,102)	208,110,388	(1,937,313,040)
Properties held for sale		(265,507,980)	(692,236,187)	800,401,309
Prepaid taxes and other current assets		(284,217,405)	(349,195,707)	60,990,622
Real estate development projects		-	-	(45,181,174)
Other non-current assets		118,248	44,140,926	(90,602,627)
Accounts payable and other current liabilities		(825,476,317)	(340,014,434)	516,712,135
Accrued employee benefits		(27,372,387)	(12,725,357)	51,116
Installment payable		(94,867,844)	(301,166,892)	(97,243,761)
Advance rentals		(175,879,730)	13,829,918	217,340,128
Deposits from tenants		(134,201,119)	45,149,228	32,156,643
Net cash generated from operations		(74,107,036)	1,257,480,610	4,678,636,289
Income tax paid		(468,119,089)	(609,634,380)	(722,631,847)
Interest received		196,824,969	381,526,486	218,510,740
Contributions paid to retirement plan	24	-	-	(52,653,236)
Retirement benefits paid directly by the Group		(8,225,271)	(1,333,401)	(3,617,203)
Net cash (used in) provided by operating activities		(353,626,427)	1,028,039,315	4,118,244,743
Cash flows from investing activities				
Additions to:				
Property and equipment	12	(126,722,430)	(152,201,324)	(125,092,093)
Other non-current assets	14	-	(465,888,000)	(171,705,000)
Advances to a joint venture	8	(5,409,091)	(10,762,246)	(1,019,989,374)
Investment properties	10	(457,743,557)	(367,685,862)	(1,109,209,440)
Financial assets at fair value through other comprehensive income	11	-	-	1,966,500
Dividends received	23	11,658,709	13,002,470	55,541,739
Proceeds from sale of property and equipment	12, 23	9,775,500	703,857	2,341,134
Net cash used in investing activities		(568,440,869)	(982,831,105)	(2,366,146,534)
Cash flows from financing activities				
Payments of:				
Loan principal	16	(1,433,333,333)	(2,603,333,333)	(3,208,333,333)
Interest	16	(88,357,516)	(106,057,131)	(246,490,921)
Cash dividends paid to:				
Shareholders	19	(602,612,211)	(718,753,242)	(830,855,683)
Non-controlling shareholders of subsidiaries	9	(389,480,000)	(254,660,000)	(398,468,000)
Proceeds from loan availment	16	3,255,999,987	2,550,000,000	3,145,000,000
Net cash provided by (used in) financing activities		742,216,927	(1,132,803,706)	(1,539,147,937)
Net (decrease) increase in cash and cash equivalents for the year		(179,850,369)	(1,087,595,496)	212,950,272
Cash and cash equivalents at January 1	3	1,549,970,914	2,640,088,900	2,432,097,332
Effects of exchange rate changes on cash and cash equivalents	3	6,359,609	(2,522,490)	(4,958,704)
Cash and cash equivalents at December 31	3	1,376,480,154	1,549,970,914	2,640,088,900

The notes on pages 49 to 121 are integral part of these consolidated financial statements.

Shang Properties, Inc. and Subsidiaries

Notes to the Consolidated Financial Statements
As at December 31, 2021 and 2020
and for each of the three years in the period ended December 31, 2021
(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.

COVID-19 Pandemic

The pandemic which broke out in 2020 forced governments all over the world, including the Philippines, to implement community lockdowns and quarantines to mitigate the spread of the virus. Unfortunately, these lockdowns caused the demands for goods and services to plummet which ultimately led to the contraction of both the global and domestic economies. In the Philippines, work from home arrangements and other health and safety protocols were implemented by companies to comply with the requirements of the government.

As of report date, the pandemic remains the topmost concern of governments and businesses alike. The Philippine economy is gradually reopening with the imposition of less stringent community quarantine protocols. Likewise, the vaccination program of the government has commenced in 2021 which is hoped to slow down the spread of the virus and boost confidence among businesses and consumers. While the pandemic still poses some risks and uncertainties, the Group however remains confident on its ability to absorb some conceivable financial shocks that may arise due to volatile economic conditions.

The consolidated financial statements have been approved and authorized for issue in accordance with a resolution of the Board of Directors dated March 24, 2022.

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 development and sale of condominium units. The subsidiaries operating in this segment are as follows:

- 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.

- SPI Property Holdings, Inc. ("SPI-PHI"), and SPI Land Development, Inc. ("SPI-LDI") are new subsidiaries in which the Group will develop its upcoming projects.

(b) Hotel operations

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.

As disclosed in Note 10, 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 2024. Upon completion, the project will be subsequently leased out to third parties and related parties. In 2021, the Parent Company has transferred the construction-in-progress to SPI Property Developers, Inc. ("SPI-PDI"). The Parent Company intends to transfer the land where the project is being constructed to SPI-PDI in 2022.

(d) Other business segments

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 2021, 2020 and 2019. 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 2021, 2020, and 2019.

The segment assets, liabilities and results of operations of the reportable segments of the Group as at and for the year ended December 31, 2021 are as follows:

	Property development	Hotel operations	Leasing	Others	Total segments	Eliminations	Consolidated
Revenues							
Condominium sales	1,951,230,634	-	-	-	1,951,230,634	-	1,951,230,634
Rental and cinema	29,414,034	-	1,870,556,047	-	1,899,970,081	(79,700,212)	1,820,269,869
Hotel operation	-	802,424,771	-	-	802,424,771	-	802,424,771
Cost of sales and services							
Condominium sales	(957,901,740)	-	-	-	(957,901,740)	-	(957,901,740)
Rental and cinema	(23,882,524)	-	(52,849,225)	-	(76,731,749)	(4,709,563)	(81,441,312)
Hotel operation	-	(1,525,725,890)	-	-	(1,525,725,890)	-	(1,525,725,890)
Gross profit (loss)	998,860,404	(723,301,119)	1,817,706,822	-	2,093,266,107	(84,409,775)	2,008,856,332
Operating expenses	(445,205,066)	(240,529,462)	(949,935,242)	(69,174,744)	(1,704,844,514)	353,498,127	(1,351,346,387)
Other income (expense)	146,573,347	5,179,028	1,836,217,534	533,710,293	2,521,680,202	(2,141,169,424)	380,510,778
Share in net income of associates and a joint venture	-	-	404,707,422	-	404,707,422	-	404,707,422
Interest expense and bank charges	(239,355)	(68,814,748)	(50,991,945)	(6,030)	(120,052,078)	-	(120,052,078)
Income before income tax	699,989,330	(1,027,466,301)	3,057,704,591	464,529,519	3,194,757,139	(1,872,081,072)	1,322,676,067
Income tax expense (benefit)	(75,835,979)	188,273,811	716,873,969	34,228,507	863,540,308	4,059,769	867,600,077
Net income for the year	624,153,351	(839,192,490)	3,774,578,560	498,758,026	4,058,297,447	(1,868,021,303)	2,190,276,144
Segment assets	13,790,274,492	9,013,578,399	50,775,921,997	5,813,004,665	79,392,779,553	(19,934,131,349)	59,458,648,204
Associate and joint venture companies (Note 8)	-	-	-	4,318,123,784	4,318,123,784	-	4,318,123,784
Total assets	13,790,274,492	9,013,578,399	50,775,921,997	10,131,128,449	83,710,903,337	(19,934,131,349)	63,776,771,988
Segment liabilities	8,219,642,381	2,981,522,863	16,324,221,031	7,422,369,764	34,947,756,039	(14,110,007,432)	20,837,748,607
Capital expenditures for the year (Notes 10 and 12)	360,702	116,036,030	468,006,247	63,008	584,465,987	-	584,465,987

The segment assets, liabilities and results of operations of the reportable segments of the Group as at and for the year ended December 31, 2020 are as follows:

	Property development	Hotel operations	Leasing	Others	Total segments	Eliminations	Consolidated
Revenues							
Condominium sales	3,009,081,539	-	864,966	-	3,009,946,505	-	3,009,946,505
Rental and cinema	29,819,750	-	2,188,581,255	-	2,218,401,005	(89,620,954)	2,128,780,051
Hotel operation	-	1,081,762,155	-	-	1,081,762,155	-	1,081,762,155
Cost of sales and services				-			
Condominium sales	(1,683,687,995)	-	(1,312,500)	-	(1,685,000,495)	-	(1,685,000,495)
Rental and cinema	-	-	(95,573,669)	-	(95,573,669)	(4,674,713)	(100,248,382)
Hotel operation	-	(1,851,378,118)	-	-	(1,851,378,118)	-	(1,851,378,118)
Gross profit	1,355,213,294	(769,615,963)	2,092,560,052	-	2,678,157,383	(94,295,667)	2,583,861,716
Operating expenses	(375,549,074)	(488,814,726)	(968,701,023)	(63,512,466)	(1,896,577,289)	397,888,017	(1,498,689,272)
Other income (expense)	521,852,549	336,110	1,623,049,579	1,482,381,069	3,627,619,307	(2,932,883,089)	694,736,218
Share in net income of associates and a joint venture	-	-	185,533,552	-	185,533,552	-	185,533,552
Interest expense and bank charges	(382,615)	(54,598,512)	(84,664,886)	(559)	(139,646,572)	-	(139,646,572)
Income before income tax	1,501,134,154	(1,312,693,091)	2,847,777,274	1,418,868,044	4,455,086,381	(2,629,290,739)	1,825,795,642
Income tax expense	(447,929,063)	366,508,509	(330,694,493)	(6,915,883)	(419,030,930)	14,815,070	(404,215,860)
Net income for the year	1,053,205,091	(946,184,582)	2,517,082,781	1,411,952,161	4,036,055,451	(2,614,475,669)	1,421,579,782
Segment assets	13,068,010,430	9,634,940,936	46,277,865,491	11,016,135,980	79,996,952,837	(18,144,906,407)	61,852,046,430
Associate and joint venture companies (Note 8)	-	-	-	1,317,911,271	1,317,911,271	-	1,317,911,271
Total assets	13,068,010,430	9,634,940,936	46,277,865,491	12,334,047,251	81,314,864,108	(18,144,906,407)	63,169,957,701
Segment liabilities	7,442,505,419	2,776,383,880	15,062,265,919	8,323,004,905	33,604,160,123	(12,108,569,589)	21,495,590,534
Capital expenditures for the year (Notes 10 and 12)	2,676,259	136,712,429	380,212,784	285,714	519,887,186	-	519,887,186

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 operations	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 profit	1,732,208,054	367,544,162	3,432,000,243	-	5,531,752,459	(248,934,056)	5,282,818,403
Operating expenses	(287,086,761)	(299,765,477)	(1,257,069,298)	(64,447,857)	(1,908,369,393)	656,566,364	(1,251,803,029)
Other income (expense)	(192,924,659)	7,210,175	2,669,571,077	688,023,259	3,171,879,852	(2,555,214,354)	616,665,498
Share in net income of associates and a joint venture		-	101,237,114	-	101,237,114	-	101,237,114
Interest expense and bank charges	(409,593)	(130,105,616)	(141,818,458)	(5,244)	(272,338,911)	-	(272,338,911)
Income before income tax	1,251,787,041	(55,116,756)	4,803,920,678	623,570,158	6,624,161,121	(2,147,582,046)	4,476,579,075
Income tax expense	(408,668,551)	(25,143,078)	(848,064,622)	(5,489,604)	(1,287,365,855)	232,555,473	(1,054,810,382)
Net income for the year	843,118,490	(80,259,834)	3,955,856,056	618,080,554	5,336,795,266	(1,915,026,573)	3,421,768,693
Segment assets	14,518,918,845	10,683,758,292	44,877,200,970	10,548,633,457	80,628,511,564	(19,396,613,973)	61,231,897,591
Associate and joint venture companies (Note 8)	-	-	-	2,121,615,473	2,121,615,473	-	2,121,615,473
Total assets	14,518,918,845	10,683,758,292	44,877,200,970	12,670,248,930	82,750,127,037	(19,396,613,973)	63,353,513,064
Segment liabilities	8,494,443,981	2,877,048,916	15,144,127,410	8,721,768,663	35,237,388,970	(13,154,014,784)	22,083,374,186
Capital expenditures for the year (Notes 10 and 12)	8,835,831	87,584,563	144,081,584	193,448	240,695,426	-	240,695,426

Note 3 - Cash and cash equivalents

Cash and cash equivalents as at December 31 consist of:

	2021	2020
Cash on hand	15,431,046	7,086,224
Cash in banks	817,622,712	817,325,094
Cash equivalents	543,426,396	725,559,596
	1,376,480,154	1,549,970,914

Cash in banks earned interest at prevailing bank deposit rates.

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 prevailing short-term deposit rates.

Interest income earned for the year ended December 31, 2021 amounted to P2,334,180 (2020 – P12,956,641; 2019 – P44,045,396) (Note 23).

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:

	2021			2020		
	Foreign currency	Exchange rate	Peso equivalent	Foreign currency	Exchange rate	Peso equivalent
US Dollar	1,647,584	50.77	83,647,840	1,949,160	48.04	93,637,646
HK Dollar	-	6.51	-	2,062	6.19	12,764

The realized and unrealized exchange losses for the years ended December 31 included within Other income in the consolidated statement of total comprehensive income are as follows:

	2021	2020	2019
Foreign exchange gains (losses)			
Realized	(1,834,623)	(1,206,598)	(2,798,376)
Unrealized	6,359,609	(2,522,490)	(4,958,704)
Total	4,524,986	(3,729,088)	(7,757,080)

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

This account represents equities that are listed in the Philippine Stock Exchange (PSE). Movements in the account for the years ended December 31 are as follows:

	Note	2021	2020
At January 1		33,626,210	36,278,844
Loss on fair value adjustment (Included in Other income)	23	(2,810,236)	(2,652,634)
At December 31		30,815,974	33,626,210

The fair values have been derived based on current bid prices in the PSE (Level 1 valuation).

Note 5 - Trade and other receivables, net

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

	Note	2021	2020
Trade			
Installment contracts receivable		2,193,098,452	3,044,359,832
Rent receivables		214,920,610	249,776,897
Receivables from guests and concessionaires		158,365,411	53,866,187
Non-trade			
Related parties	27	1,750,160,781	1,604,238,974
Advances to officers and employees		6,027,757	4,225,928
Interest		2,131,372	4,316,725
Others		77,077,346	58,574,091
		4,401,781,729	5,019,358,634
Allowance for impairment of receivables		(21,040,280)	(23,020,320)
		4,380,741,449	4,996,338,314

Installment contracts receivable arises from sale of condominium units in the Group's ordinary course of business. Contract receivables are collectible within a period based on the payment schedule agreed with the buyers. Interest income earned from installment contracts receivable for the year ended December 31, 2021 amounted to P111,642,591 (2020 - P299,782,769; 2019 - P166,691,384) (Note 23).

Rent receivables are non-interest bearing and pertain to rental fees charged to tenants. 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	2021	2020
At January 1		23,020,320	14,498,427
Provision	22	322,003	9,113,149
Write-off		(2,302,043)	(591,256)
At December 31		21,040,280	23,020,320

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, 2021 and 2020.

Note 6 - Properties held for sale

Properties held for sale as at December 31 consist of:

	2021	2020
Condominium units held for sale	422,129,541	497,742,705
Construction in progress	3,242,856,619	2,915,322,511
	3,664,986,160	3,413,065,216

The cost of condominium sales recognized as expense and presented as part of Cost of sales and services in the Consolidated statements of comprehensive income amounted to P957,901,740 in 2021 (2020 - P1,685,000,495; 2019 - P2,696,938,381) (Note 20).

(a) Condominium units held for sale

This account represents the accumulated actual construction costs of unsold units of completed condominium projects.

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

	2021	2020
At January 1	497,742,705	486,168,462
Additional development costs for the year	29,873,621	50,634,884
Cost of condominium units sold (excluding commissions)	(105,486,785)	(39,060,641)
At December 31	422,129,541	497,742,705

The additional development costs presented above pertain to the Shang Salcedo Place and Horizon Homes.

(b) Construction in progress

This account represents the accumulated actual construction costs of unsold units of ongoing condominium projects. The movements in this account as at December 31 are as follows:

	Note	2021	2020
At January 1		2,915,322,511	2,390,076,899
Construction and development costs incurred:			
Construction cost		544,966,951	1,086,872,457
Project management expenses		167,632,766	155,661,123
Professional and consultancy fees		28,740,593	24,953,404
Insurance and bonds		5,603,839	11,296
Land cost		452,138,727	842,750,537
Taxes, permits and licenses		19,781,405	72,208,236
Others		17,391,932	27,848,398
Transfer to investment property	10	(13,377,018)	(155,196,774)
Allocated cost of condominium sold (excluding commissions)		(895,345,087)	(1,529,863,065)
At December 31		3,242,856,619	2,915,322,511

Transfers in 2021 and 2020 relate to construction and development costs incurred during the period attributable to the retail portion of The Rise Makati condominium (Note 10).

As at December 31, 2021, the estimated costs to complete the Group's on-going projects follow:

	2021	2020
The Rise Makati	690,336,332	1,076,089,884
Shang Residences at Wack Wack	3,101,382,539	3,625,240,249
	3,791,718,871	4,701,330,133

Critical accounting judgment - 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 a 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.

NRV has been assessed to be higher than cost based on circumstances or conditions as at December 31, 2021 and 2020. Accordingly, no write-down is deemed necessary.

Critical accounting estimates - Estimation of percentage-of-completion of the Group's projects

Revenue from condominium sales is recognized over time using the output method in accordance with the guidance set in PFRS 15, *Revenue from contracts with customers*, and Philippine Interpretations Committee Questions and Answers (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's on-going projects and their PoC as at December 31 are as follows:

Projects	2021	2020
The Rise Makati	99%	97%
Shang Residences at Wack Wack	33%	21%

Critical accounting judgment - Collectability of the transaction 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 Company considers that initial and continuing investments by the buyer of about 10% would demonstrate the buyer's commitment to pay, based on historical data.

Note 7 - Prepaid taxes and other current assets

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

	2021	2020
Advances to contractors and suppliers	1,102,047,298	888,508,872
Creditable withholding tax (CWT)	473,399,458	420,217,281
Prepaid commission	112,295,828	119,207,410
Input value added tax (VAT)	89,830,102	93,813,135
Prepaid property tax	46,254,700	62,647,224
Prepaid insurance	9,763,998	13,486,737
Consumables and supplies	12,049,934	13,303,359
Deferred input VAT	6,644,408	6,031,092
Other prepaid expenses	95,145,901	45,999,112
	1,947,431,627	1,663,214,222

Advances to contractors and suppliers pertain to initial payments made by the Group for the construction and development of its condominium projects. These are applied as payments of 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 withholding agents from payments to the Group which can be applied against the income tax payable.

Prepaid commission represents advance commission paid to property consultants and brokers based on the percentage of completion of the project sold. This account is treated as a fulfilment cost under PFRS 15, *Revenue from contracts with customers*, and therefore amortized as an expense.

Input VAT represents tax paid to suppliers that can be claimed as credit against the future output VAT liabilities and has no expiration.

Consumables and supplies consist of food, beverages and other recreational consumable items for the hotel operations.

Other prepaid expenses mainly consist of advance payments for rent, staff accommodation rentals, software support, refundable deposits, and other expenses which are normally utilized within the next financial year.

Note 8 - Investments in and advances to associates and a joint venture

This account as at December 31 consist of:

	2021	2020
Investment in a joint venture		
At January 1	1,317,778,398	1,121,482,600
Additional investments	5,409,091	10,762,246
Share in net income for the year	404,707,422	185,533,552
At December 31	1,727,894,911	1,317,778,398
Advances to a joint venture	2,590,096,000	1,000,000,000
Investments in various associates	132,873	132,873
	4,318,123,784	2,317,911,271

(a) Investment in and advances to a joint venture

On March 22, 2018, the Parent Company entered into a Joint Venture Agreement (the "Agreement") with Robinsons Land Corporation (RLC) for the construction and development of a mixed-use condominium project (known as Aurelia Residences). 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 Shang Robinsons Properties, Inc. (SRPI). SRPI is jointly controlled by the Parent Company and RLC, each holding 50% interest.

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

The authorized capital stock of SRPI is P3 billion divided into 3 billion common shares with par value of P1 per share. On April 19, 2018, the Parent Company subscribed and paid in full the amount of P1 billion equivalent to 1 billion common shares at P1 per share.

SRPI is engaged 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.

SRPI commenced operations in 2019 and had since then presold 60% of its Aurelia Residences condominium units. As at December 31, 2021, the Aurelia Residences Project is 15% complete (2020 - 7%). In 2021, the Group's share in net income of the joint venture amounted to P404,707,422 (2020 - P185,533,552).

In 2019, advances amounting to P1 billion were extended to SRPI by the Parent Company. These advances will mature on April 1, 2023 and bear interest at a rate of 4%. In 2021, an additional P1.59 billion advances was extended to SRPI with the same interest rate. Of this amount, P888 million came from funds previously restricted for this purpose (Note 14). Interest income earned from these advances amounted to P73,918,875 in 2021 (2020- P64,322,935) (Note 23).

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

	2021	2020
Summarized statements of financial position		
Current assets	12,542,718,617	9,050,807,444
Current liabilities	4,504,631,214	3,850,530,594
Non-current assets	269,339,168	521,597,386
Non-current liabilities	4,943,113,600	3,167,337,600
Net assets	3,364,312,971	2,554,536,636

	2021	2020
Summarized statements of comprehensive income		
Gross revenue	2,004,051,580	929,357,646
Net income for the year	809,414,844	371,067,103
Other comprehensive income for the year	-	-
Total comprehensive income for the year	809,414,844	371,067,103

(b) Investments in various associates

The Group also has interests in a number of individually immaterial associates that are accounted for using the equity method.

Critical accounting judgment - Recoverability of investment and advances

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. Management has assessed that all investments and advances are fully recoverable as there are no impairment indicators as of reporting date.

Significant accounting judgment - joint control assessment

Management has assessed that in the joint venture agreement, the contractual arrangement gives the investors control of the arrangement collectively, and decisions about the relevant activities require the unanimous consent of both entities, and therefore, joint control exists. Furthermore, the rights and obligations considering the structure and legal form of the arrangement indicates that the Parent Company has rights to the net assets of SRPI and therefore, the arrangement is classified as a joint venture.

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:

	2021	2020
KSA	29.96%	29.96%
SGCPI	40.00%	40.00%

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

	2021	2020
Summarized statements of financial position		
Current assets	218,308,408	820,027,926
Current liabilities	417,607,011	616,029,103
Non-current assets	10,664,109,117	10,668,871,953
Non-current liabilities	2,294,704,766	2,744,250,925
Equity	8,170,105,748	8,128,619,851
Equity attributable to:		
Equity holders of the Parent Company	5,722,342,066	5,693,285,344
NCI	2,447,763,682	2,435,334,507
	8,170,105,748	8,128,619,851
Dividends declared to NCI	389,480,000	254,660,000

	2021	2020	2019
Summarized statements of comprehensive income			
Revenues	1,247,331,349	1,435,989,656	1,429,812,199
Cost and expenses	(39,088,170)	(70,079,425)	(71,929,445)
Other income (expense), net	(59,171,269)	(1,081,116)	89,508,516
Income before income tax	1,149,071,910	1,364,829,115	1,447,391,270
Income tax benefit (expense)	192,395,507	(263,035,391)	(279,232,769)
Net income for the year	1,341,467,417	1,101,793,724	1,168,158,501
Other comprehensive income (loss)	18,479	(107,625)	(54,383)
Total comprehensive income	1,341,485,896	1,101,686,099	1,168,104,118
Net income attributable to:			
Equity holders of the Parent Company	939,563,779	771,696,324	818,178,214
NCI	401,903,638	330,097,400	349,980,287
	1,341,467,417	1,101,793,724	1,168,158,501
Total comprehensive income attributable to:			
Equity holders of the Parent Company	939,576,722	771,620,944	818,140,124
NCI	401,909,174	330,065,155	349,963,994
	1,341,485,896	1,101,686,099	1,168,104,118

	2021	2020	2019
Summarized statements of cash flows			
Operating activities	776,965,610	1,141,854,238	1,247,497,746
Investing activities	(22,642)	(671,663)	(2,369,718)
Financing activities	(1,321,422,305)	(828,577,695)	(1,330,000,000)

(b) Shang Global City Properties, Inc.

	2021	2020
Summarized statements of financial position		
Current assets	604,520,335	558,370,087
Current liabilities	1,734,370,736	1,486,150,528
Non-current assets	8,409,058,064	9,076,570,849
Non-current liabilities	1,247,152,126	1,290,233,352
Equity	6,032,055,537	6,858,557,056
Equity attributable to:		
Equity holders of the Parent Company	3,619,233,322	4,115,134,234
NCI	2,412,822,215	2,743,422,822
	6,032,055,537	6,858,557,056

	2021	2020	2019
Summarized statements of comprehensive income			
Revenues	802,424,771	1,081,762,155	3,701,852,718
Cost of sales and services	(1,525,725,890)	(1,797,344,447)	(2,696,734,646)
Operating expenses	(240,529,462)	(392,286,468)	(772,931,747)
Other expenses, net	(63,635,720)	(204,824,327)	(163,685,699)
Income before income tax	(1,027,466,301)	(1,312,693,087)	68,500,626
Income tax benefit (expense)	188,273,811	366,508,509	(25,143,078)
Net income (loss) for the year	(839,192,490)	(946,184,578)	43,357,548
Other comprehensive income (loss)	12,690,968	(1,967,738)	(3,892,437)
Total comprehensive income (loss)	(826,501,522)	(948,152,316)	39,465,111
Net income (loss) attributable to:			
Equity holders of the Parent Company	(503,515,494)	(567,710,747)	26,014,529
NCI	(335,676,996)	(378,473,831)	17,343,019
	(839,192,490)	(946,184,578)	43,357,548
Total comprehensive income attributable to:			
Equity holders of the Parent Company	(495,900,913)	(568,891,390)	23,679,067
NCI	(330,600,609)	(379,260,926)	15,786,044
	(826,501,522)	(948,152,316)	39,465,111

	2021	2020	2019
Summarized statements of cash flows			
Operating activities	(525,728,135)	(302,908,282)	979,260,721
Investing activities	(84,782,469)	(71,452,196)	(144,178,230)
Financing activities	608,193,062	146,159,927	(1,396,972,328)

No dividends were declared and paid by SGCPI in 2021 and 2020.

Note 10 - Investment properties; Real estate development projects

10.1 Investment properties

This account consists of properties that are either held for capital appreciation or for rental purposes or both. The Group's investment properties are carried at fair value.

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

	Note	Land	Buildings	Total
At January 1, 2020		15,253,910,599	17,649,466,169	32,903,376,768
Transfers due to change in use				
From properties held for sale	6	-	155,196,774	155,196,774
From real estate development project	10.2	652,036,324	835,577,337	1,487,613,661
Capitalized subsequent expenditures		-	367,685,862	367,685,862
At December 31, 2020		15,905,946,923	19,007,926,142	34,913,873,065
Transfers due to change in use				
From properties held for sale	6	-	13,377,018	13,377,018
Capitalized subsequent expenditures		-	457,743,557	457,743,557
At December 31, 2021		15,905,946,923	19,479,046,717	35,384,993,640

As at December 31, 2021 and 2020, 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 current use of these properties is their highest and best use.

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

	2021	2020	2019
Rental revenue	1,819,173,957	2,124,139,646	3,278,602,944
Cinema revenue	1,095,912	4,640,405	74,663,096
Total rental and cinema revenue	1,820,269,869	2,128,780,051	3,353,266,040
Direct operating expenses	(81,441,312)	(100,248,382)	(169,393,067)
Profit arising from investment properties carried at fair value	1,738,828,557	2,028,531,669	3,183,872,973

Direct operating expenses include share in common expenses, real property taxes and insurance expenses (Note 20).

The Group (as a lessor) 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 future gross rental income related to these cancellable lease agreements for the years ended December 31 are as follows:

	2021	2020	2019
Percentage basis	209,086,469	318,932,966	988,628,467
Fixed monthly rental	1,610,087,488	1,805,206,680	2,289,974,477
	1,819,173,957	2,124,139,646	3,278,602,944

Critical accounting estimate - Determination of fair values of investment properties

Information on the fair value of investment property as at December 31 as to hierarchy is as follows:

		2021	
Fair value of hierarchy	Land	Buildings	Total
Level 2	10,034,573,023	2,455,826,617	12,490,399,640
Level 3	5,871,373,900	17,023,220,100	22,894,594,000
Total	15,905,946,923	19,479,046,717	35,384,993,640

		2020	
Fair value of hierarchy	Land	Buildings	Total
Level 2	10,034,573,023	1,984,706,042	12,019,279,065
Level 3	5,871,373,900	17,023,220,100	22,894,594,000
Total	15,905,946,923	19,007,926,142	34,913,873,065

(a) Fair value of condominium units and other properties (Level 2)

The fair values of the Group's condominium units and properties are determined using the market comparison approach (Level 2). 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.

These 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.

(b) Fair value of retail and office spaces (Level 3)

The following table presents the valuation techniques and unobservable key inputs used to value the following investment properties:

Investment property type	Fair value as at December 31, 2021 and 2020	Valuation technique	Unobservable inputs	Range of unobservable inputs (probability - weighted average)	Relationship of unobservable inputs to fair value
Building (The Enterprise Center (Office))	P10,662,565,000	Direct income capitalization	Rental value	P1,680 per square meter (2020 - P1,680)	The higher the rental value and occupancy rate, the higher the fair value.
			Occupancy rate	95% (2020 - 95%)	
			Expense-revenue ratio	5.55% (2020 - 5.55%)	The higher the expense- revenue ratio and discount rate, the lower the fair value.
			Discount rate	11.37% (2020 - 11.37%)	
Land and building (Main wing and east wing of Shangri-La Plaza mall (Retail), including the land where the property is located)	P12,232,029,000 (Land - P 5,871,373,900; Building – P6,360,655,100)	Direct income capitalization	Rental value	P1,700 per square meter (2020 - P1,700)	The higher the rental value and occupancy rate, the higher the fair value.
			Occupancy rate	96% (2020 - 96%)	
			Expense-revenue ratio	23% (2020 - 23%)	The higher the expense- revenue ratio and discount rate, the lower the fair value.
			Discount rate	12.37% (2020 - 12.37%)	

The fair values of these properties are calculated using the direct income capitalization approach (Level 3). In applying the direct income capitalization approach, the stabilized net operating income (NOl) of each property is divided by an appropriate capitalization rate. 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. 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.

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.

For sensitivity analysis purposes, any +/- 1% change in market rental value per square meter would increase/decrease total assets and pre-tax income by P349 million (2020 – P349 million).

<u>*Critical accounting judgments*</u>

(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 the property 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.

(b) Classification of leases as operating lease

The Group (as a lessor) 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, 2021 and 2020 are disclosed in the previous table.

10.2 Real estate development projects

Real estate development projects account includes construction cost related to the Parent Company and TRDCI. Movements in this account as at December 31, 2020 is as follows:

	Note	2020
At January 1		1,487,613,661
Transfers to investment properties	10.1	(1,487,613,661)
At December 31		-

In 2020, capitalized costs from an ongoing project of the Parent Company amounting to P857,152,570 and construction costs allocated to the retail portion of The Rise Makati amounting to P630,461,091 that is intended for leasing were transferred from real estate development projects to "Investment properties".

Note 11 - Financial assets at fair value through other comprehensive income, net

This account consists of equity securities as follows:

	2021	2020
Unquoted securities	488,429,727	488,429,727
Quoted securities	9,101,515	9,101,515
Acquisition cost	497,531,242	497,531,242
Cumulative changes in fair value	299,437,253	300,037,254
Fair value	796,968,495	797,568,496

The fair values of the unquoted equity securities are based on the net asset value of the underlying assets of investee companies 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. Estimated fair value of assets classified as Level 3 are considered immaterial relative to the overall size of the Group's total assets.

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 recognized as other comprehensive income in te statement of financial position for the years ended December 31 are as follows:

	2021	2020
At January 1	258,709,161	263,169,666
Loss on fair value adjustment	(600,000)	(6,100,000)
Deferred income tax effect	(825,004)	1,639,495
At December 31	257,284,157	258,709,161

Note 12 - 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 building improvements	Transportation equipment	Furniture, fixtures and other equipment	Total
Cost				
At January 1, 2021	9,434,803,085	48,693,212	6,982,848,189	16,466,344,486
Additions	99,483,338	1,897,857	25,341,235	126,722,430
Adjustment	-	-	(78,251)	(78,251)
Disposals	(1,890,000)	-	-	(1,890,000)
At December 31, 2021	9,532,396,423	50,591,069	7,008,111,173	16,591,098,665
Accumulated depreciation and amortization				
At January 1, 2021	1,336,454,869	34,335,012	3,410,962,045	4,781,751,926
Depreciation and amortization	129,586,141	5,175,824	860,724,610	995,486,575
Disposals	-	-	-	-
At December 31, 2021	1,466,041,010	39,510,836	4,271,686,655	5,777,238,501
Cost				
At January 1, 2020	9,455,442,784	54,141,601	6,978,260,203	16,487,844,588
Additions	48,499,753	12,500	103,689,071	152,201,324
Disposals and other adjustments	(69,139,452)	(5,460,889)	(99,101,085)	(173,701,426)
At December 31, 2020	9,434,803,085	48,693,212	6,982,848,189	16,466,344,486
Accumulated depreciation and amortization				
At January 1, 2020	1,210,331,138	32,686,558	2,433,337,312	3,676,355,008
Depreciation and amortization	126,123,731	6,755,274	979,795,829	1,112,674,834
Disposals	-	(5,106,820)	(2,171,096)	(7,277,916)
At December 31, 2020	1,336,454,869	34,335,012	3,410,962,045	4,781,751,926
Net book values at				
At December 31, 2021	8,066,355,413	11,080,233	2,736,424,518	10,813,860,164
At December 31, 2020	8,098,348,216	14,358,200	3,571,886,144	11,684,592,560

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 were allocated as follows:

	Notes	2021	2020	2019
Cost of sales and services	20	956,163,370	1,074,039,063	1,080,551,476
Operating expenses		39,113,187	38,416,213	33,625,702
Capitalized under property held for sale		210,018	219,558	930,683
		995,486,575	1,112,674,834	1,115,107,861

There are no restrictions imposed on the Group's property and equipment and no property and equipment were pledged as security for bank loans (Note 16).

Critical accounting estimate - 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 2021 and 2020, there were no changes in the estimated useful lives of property and equipment.

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 P641.91 million higher or P525.23 million lower (2020 - P531.33 million higher or P434.70 million lower).

Critical accounting judgment - Impairment of non-financial assets

The Group reviews its non-financial assets, such as investments in associates and in a joint venture (Note 8) and property and equipment (Note 12), 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, 2021 and 2020.

Note 13 - Goodwill

Goodwill acquired through business combinations has been allocated to SGCPI, the CGU, for impairment testing purposes.

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 6.69% (2020 - 12.89%). Cash flows beyond the five-year period are extrapolated using a steady growth rate of 2.86% (2020 - 3.14%), 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.

Note 14 - Other non-current assets

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

	Note	2021	2020
Refundable deposits		158,464,474	136,967,397
Retirement benefit asset	24	17,350,712	9,721,578
Deferred input VAT		954,363	30,198,822
Restricted fund		-	887,888,000
		176,769,549	1,064,775,797

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.

Restricted fund

In 2020, restricted fund represents fund set aside for future advances to SRPI. In 2021, Parent Company extended an amount of P1.59 billion as advances to SRPI. Of this amount, P888 million came from this restricted fund (Note 9).

Note 15 - Accounts payable and other current liabilities

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

	Notes	2021	2020
Trade:			
Accounts payable		338,967,230	575,234,991
Advance rentals	29	90,958,156	168,788,961
Accrued expenses:			
Construction		1,093,827,411	1,251,984,917
Taxes		222,399,022	222,496,692
Employee benefits		64,029,894	100,588,580
Titling cost		96,439,358	95,685,587
Utilities		30,707,663	52,458,386
Outside services		48,829,610	49,383,279
Commission		32,392,473	39,634,928
Provision for restructuring	22	-	33,985,773
Repairs and maintenance		56,257,535	24,330,118
Interest	16	14,278,005	17,570,659
Professional fees		13,831,221	12,463,758
Advertising and promotion		6,635,632	8,981,834
Others		76,828,279	24,140,253
Customers' deposits from:			
Condominium buyers		443,028,805	460,174,363
Hotel guests		129,095,127	149,627,017
Retention payables		527,518,845	596,429,280
Reservation payables		23,101,979	14,424,466
Advances from condominium unit buyers		246,628,625	302,158,966
Contract liabilities		86,799,375	22,428,105
Payable to contractors and suppliers		13,430,725	58,088,116
Construction bonds		60,161,848	62,695,015
Non-trade:			
Payable to related parties	27	125,638,746	172,556,667
Deferred output VAT		749,896,596	801,945,912
Payable to government agencies		24,682,604	43,852,775
Output VAT		60,829,668	53,347,319
Others	28	96,879,418	268,537,889
		4,774,073,850	5,683,994,606

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.

In December 2020, SGCPI started to implement a restructuring program and a provision for restructuring amounting to P33.99 million was recognized for the termination benefits of redundated employees. The related provision was recognized under operating expenses in the statements of total comprehensive income (Note 22). In 2021, SGCPI reversed the excess provision for restructuring amounting to P6.4 million.

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 forfeited when the buyer did not push through with the purchase.

Advances from condominium unit buyers mainly pertain to amounts collected from buyers upon unit turnover, which are intended to pay for expenses incurred in process of transferring title to the buyers, utility deposits and real property taxes during titling period. These amounts are liquidated after title has been transferred to the buyer and any excess is refunded to the buyer.

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.

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.

Construction bonds pertain to cash deposits posted by tenants as security for any expenses or damages that may be incurred by SLPC to the leased premises or common areas that may be sustained 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.

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 costs and other general and administrative expenses. Other current liabilities pertain mainly to taxes and insurance.

Note 16 - Bank loans; Installment payable

16.1 Bank loans

Bank loans, net of debt issue costs, as at December 31 consist of:

	2021	2020
Current portion		
Parent Company	5,390,000,000	3,833,333,333
SGCPI	1,220,111,377	450,000,000
	6,610,111,377	4,283,333,333
Non-current portion		
Parent Company	-	400,000,001
SGCPI	1,095,786,300	1,196,172,130
	1,095,786,300	1,596,172,131
	7,705,897,677	5,879,505,464

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

	2021	2020
At January 1	5,879,505,464	5,927,961,091
Amortized debt issue cost	3,725,559	4,877,706
Proceeds from loan availments, net of unamortized debt issue costs	3,255,999,987	2,550,000,000
Payments	(1,433,333,333)	(2,603,333,333)
At December 31	7,705,897,677	5,879,505,464

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

Year	2021	2020
2021	-	4,283,333,333
2022	6,615,000,000	1,600,000,001
2023	1,100,000,000	-
	7,715,000,000	5,883,333,334
Unamortized debt issue cost	(9,102,323)	(3,827,870)
	7,705,897,677	5,879,505,464

Total interest expense arising from these loans as shown in the consolidated statements of comprehensive income in 2021 amounted to P85,064,862 (2020 - P100,798,442; 2019 - P235,099,374) (Note 23). Total capitalized interest amounted to P70,313,479 in 2021 (2020 - P99,054,576) and was included as part of investment properties (Note 10). 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 2.87% (2020 - 2.19%).

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	2021	2020
At January 1		17,570,659	22,829,348
Interest expense	23	85,064,862	100,798,442
Payments		(88,357,516)	(106,057,131)
At December 31	15	14,278,005	17,570,659

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

	Note	2021	2020
Long-term loan, at January 1		5,879,505,464	5,927,961,091
Cash flows		1,826,392,213	(48,455,627)
Long-term loan, at December 31		7,705,897,677	5,879,505,464
Accrued interest		14,278,005	17,570,659
Cash and cash equivalents	3	(1,376,480,154)	(1,549,970,914)
Net debt		6,343,695,528	4,347,105,209

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

(a) Parent Company

Bank loans of the Parent Company as of December 31 consist of:

	2021	2020
Long term loan facility		
Current portion	400,000,000	533,333,333
Non-current portion	-	400,000,001
	400,000,000	933,333,334
Short term loans	4,990,000,000	3,300,000,000
	5,390,000,000	4,233,333,334

Long term loan facility

On July 30, 2012, the Parent Company obtained a 10-year loan facility from a local bank amounting to P5 billion.

Total drawdown from the above facility amounted to P3.70 billion as at December 31, 2021 and 2020. As at December 31, 2021, the outstanding balance of the loan amounted to P400 million (2020 - P933 million).The outstanding balance with a fixed interest rate of 4% per annum as at December 31, 2021 is payable in equal quarterly installments until August 2022.

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, 2021, the Parent Company is fully compliant with the loan covenants.

The loan is secured by a negative pledge on all present and future assets of the Parent Company.

Short term loans

Short term loans are composed of unsecured loans from various banks with interest rates ranging from 2.5% to 4.5% (2020 – 3.5% to 4.5%). These loans have payment terms of 3 to 12 months (2020 – 3 months).

(b) SGCPI

Bank loans of SGCPI as of December 31 consist of:

	2021	2020
Long term loan facility		
Current portion	95,111,377	-
Non-current portion	1,095,786,300	1,196,172,130
	1,190,897,677	1,196,172,130
Short term loans	1,125,000,000	450,000,000
	2,315,897,677	1,646,172,130

Long term loan facility

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

On July 28, 2021, SGCPI and its lender-bank executed a loan restructuring agreement paving the way for the following changes in the loan's salient terms and conditions as follows:

Terms	From	To
Repayment date	Quarterly from 20th quarter to the 40th quarter after the date of the initial borrowing until June 2022	Quarterly from the 20th quarter to the 37th quarter and then from 42nd quarter to the 47th quarter after the date of initial borrowing until March 2024
Spread	Floating rate – the higher of (a) 3-month Bloomberg Valuation (BVAL) plus spread of 0.80% or (b) the Bangko Sentral ng Pilipinsas (BSP) overnight borrowing rate minus spread of 0.95% per annum	Floating rate – the higher of (a) 3-month BVAL plus spread of 1.60% or (b) BSP Overnight Reverse Repurchase Rate or Fixed rate – the interpolated BVAL plus spread of 0.75%
Collateral	Unconditional continuing suretyship of the sureties (Shangri-La Asia Limited and the Parent Company)	Unconditional continuing suretyship of the sureties (Shangri-La Asia Limited and the Parent Company) and an unregistered real estate mortgage over SGCPI's residential condominium unit

SGCPI is required to comply with certain covenants and maintain certain financial ratios until the loan is fully paid. As at December 31, 2021 and 2020, SGCPI has not reached the required debt-service coverage ratio specified in the loan agreement but has complied with all other terms and conditions. The bank, through a letter of advice, has provisionally allowed SGCPI's non-compliance with the debt-service coverage ratio (DSCR) for the years 2020 and 2021 provided that the loan remains current and that all other terms and conditions of the amended loan covenant are complied with.

Short term loans

Short term loans are composed of unsecured loans from various banks with an average interest rate of 4.25% (2020 – 4.75% to 5.15%). These loans have payment terms of 5 to 9 months (2020 – 3 to 12 months).

16.2 Installment payable

On November 2, 2015, TRDCI (a subsidiary) entered into a contract with Vivelya Development Company, Inc. (VDCI) (the land owner and seller) 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 percent (15%) of base price amounting to P165 million, exclusive of 12% VAT, upon signing of the contract. The remaining balance of the purchase price is interest-free and payable on a quarterly installment basis. Accordingly, the Company determined the fair value of the remaining installments using an appropriate market rate which resulted in "Day 1 gain".

As at December 31, 2021, installment payable at amortized cost amounted to P47,883,236 (2020 - P142,751,080). Interest cost representing amortization of the Day 1 gain has been fully amortized in 2021 (2020 - P674,538 ; 2019 - P15,365,728) and has been capitalized as part of construction in-progress. There is no unamortized Day 1 gain on installment payable in 2021 and 2020 (2019 - P674,538).

Note 17 - Deposits from tenants

This account represents non-interest bearing rental deposits from tenants. Deposits from tenants is based on the present value of estimated future cash flows using applicable market rates at reporting date. 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:

	2021	2020
At January 1	1,154,772,931	1,118,744,931
Net additions (refunds)	(54,371,733)	138,326,427
Amortization of Day 1 difference	(61,425,211)	(102,298,427)
	1,038,975,987	1,154,772,931

	2021	2020
Current portion	845,472,994	614,727,181
Non-current portion	193,502,993	540,045,750
	1,038,975,987	1,154,772,931

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

	2021	2020
At January 1	95,397,448	92,655,255
Additions	(6,501,825)	43,220,638
Amortization	(34,403,409)	(40,478,445)
At December 31	54,492,214	95,397,448
Current portion	18,829,063	41,298,111
Non-current portion	35,663,151	54,099,337
	54,492,214	95,397,448

Note 18 - Equity

(a) Share capital, share premium and treasury shares

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

	2021	2020
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 Parent Company repurchased 2,140,645 common shares at a 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 (PSE). 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, 2021, the Parent Company has 5,160 shareholders (2020 - 5,191). The details of the Parent Company's shareholders are disclosed in the annual report.

There were no subsequent listings since the initial listing with PSE.

(b) Retained earnings

As at December 31, 2021, total unrestricted retained earnings of the Parent Company amounted to P19,859,180,161 (2020 - P18,048,427,321). The Parent Company's unrestricted retained earnings exceeded its share capital by P13,885,047,310 (2020 - P12,074,294,470). The excess retained earnings include accumulated fair value gain of P8,855,929,698 (2020 - P9,868,058,867) which are not considered available for dividend declaration. The management of the Parent Company plans to use the excess retained earnings to support the Parent Company's working capital requirements, planned business growth and expansion strategies. Further the Parent Company annually declares dividends in compliance with SEC Memorandum Circular No. 11, Series of 2008.

Note 19 - 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 and until the approval of these financial statements.

Date of declaration	Shareholders of record as at	Payment date	Per share	Total
2022 (subsequent event)				
March 24	April 8	April 20	0.07	333,384,284
2021				
March 25	April 9	April 16	0.080	380,953,467
September 7	September 24	September 30	0.044	209,524,407
				590,477,874
2020				
April 1	April 7	April 24	0.113	535,715,813
August 20	September 8	September 18	0.044	209,524,305
			0.157	745,240,118
2019				
March 6	March 21	March 31	0.106	502,382,385
September 16	September 30	October 20	0.070	333,334,164
			0.176	835,716,549

Cash dividends paid during 2021 amount to P602,612,211 (2020 – P718,753,242). These include payments to non-controlling shareholders of subsidiaries amounting to P389,480,000 at P1,076.25 per share (2020 - P254,660,000 at P703.70 per share).

Note 20 - 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	2021	2020	2019
Construction cost		587,926,195	1,009,565,675	1,633,629,913
Land Cost		160,899,170	337,203,703	622,814,914
Commission expense		75,620,050	116,076,789	163,192,618
Project management		74,348,066	130,233,370	149,868,850
Design and professional fees		27,201,562	45,800,968	72,480,264
Permits and other expenses		13,835,204	17,420,837	18,839,484
Sales and marketing expense		9,595,707	12,919,280	16,861,242
Titling Cost		8,364,848	14,704,751	15,831,444
Makati Commercial Estate Association (MACEA) fees		62,789	844,264	2,688,229
Insurance		48,149	230,858	731,423
	6	957,901,740	1,685,000,495	2,696,938,381

(b) Cost of rental and cinema

	Note	2021	2020	2019
Real property taxes		60,274,988	71,448,462	55,170,244
Insurance		48,239,850	33,605,613	32,274,498
Share in common expenses		(27,073,526)	(4,805,693)	81,948,325
	10	81,441,312	100,248,382	169,393,067

(c) Cost of hotel operations

	Note	2021	2020	2019
Depreciation and amortization	12	956,163,370	1,074,039,063	1,080,551,476
Food and beverages		169,924,034	183,101,096	868,269,534
Staff costs		144,812,214	251,279,123	404,965,369
Utilities and maintenance		144,597,973	174,247,722	576,004,362
Supplies		62,240,385	40,026,659	74,127,536
Property tax and insurance		38,449,156	60,992,759	61,712,182
Others		9,538,758	67,691,696	147,045,883
		1,525,725,890	1,851,378,118	3,212,676,342

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

Note 21 - Staff costs

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

	Note	2021	2020	2019
Salaries and wages		491,124,222	433,298,536	336,984,080
Employee benefits		28,808,043	42,873,601	95,230,365
Retirement benefits costs	24	42,045,731	38,105,630	37,765,035
Others		19,086,684	15,770,770	6,426,086
		581,064,680	530,048,537	476,405,566

Note 22 - Other operating expenses

The components of other operating expenses for the years ended December 31 are as follows:

	Notes	2021	2020	2019
Advertising		141,116,254	204,292,722	254,459,024
Donations		128,211,642	104,137,294	5,561,050
Professional fees		72,720,360	109,342,141	115,578,591
Janitorial, security and other services		38,134,536	42,028,997	53,786,048
Systems license and maintenance		37,577,423	55,219,394	2,835,871
Condominium dues		25,564,983	7,932,018	3,624,674
Utilities		22,837,524	10,341,828	19,541,547
Telephone and communication		12,739,484	9,267,173	9,088,133
Repairs and maintenance		6,534,288	4,049,750	6,329,398
Gas and oil		4,290,650	2,517,564	2,252,390
Supplies		3,688,559	7,597,018	6,627,181
Carpark expense		3,309,898	6,112,036	6,542,921
Entertainment, amusement and recreation		2,114,485	1,305,347	2,553,423
Membership fees and dues		1,711,127	1,859,897	2,734,398
Rent		1,284,196	373,791	566,126
Transportation and travel		1,221,335	2,284,348	7,070,500
Reproduction charges		1,024,716	1,224,319	1,459,364
Provision for doubtful accounts	5	322,003	9,113,149	170,000
Commission		138,612	258,947	5,382,606
Subscriptions, books and manuals		39,862	252,883	-
Provision for probable losses	28	-	100,150,239	-
Provision for restructuring	15	-	33,985,773	-
Others		35,563,148	26,720,455	8,693,418
		540,145,085	740,367,083	514,856,663

Donations in 2021 and 2020 were made to accredited donor institutions to support various feeding programs, livelihood projects, and typhoon relief operations.

Systems license and maintenance in 2020 pertains to IT related management and license fees under the hotel operations.

Note 23 - Finance income, other income, and finance costs

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

(a) Finance income

	Notes	2021	2020	2019
Interest arising from:				
Installment contracts receivable	5	111,642,591	299,782,769	166,691,384
Advances to a joint venture	8	73,918,875	64,322,935	-
Cash in banks and cash equivalents	3	2,334,180	12,956,641	44,045,396
Overdue accounts from tenants		6,092,033	5,880,767	6,849,275
Others		651,937	-	-
		194,639,616	382,943,112	217,586,055

(b) Other income, net

	Note	2021	2020	2019
Administration and management fee		127,688,032	89,259,775	24,785,736
Forfeited security deposits		14,996,441	14,275,842	6,830,401
Dividend income		11,658,709	13,002,470	55,541,739
Gain on sale of property and equipment		7,885,500	357,806	1,050,728
Signage fee		6,689,239	7,250,900	7,180,687
Other rental revenue		5,012,933	3,755,357	312,500
Income from back-out buyers		4,781,963	6,137,732	6,908,319
Income from ancillary services		2,750,012	4,359,118	8,057,028
Loss on fair value adjustments of financial assets at fair value through profit or loss	4	(2,810,236)	(2,652,634)	(5,145,472)
Insurance claims		-	9,380,998	-
Customer lounge fee		-	1,745,330	10,278,244
Banner income		-	494,732	3,679,732
Income from reversal of liabilities		-	159,523,441	-
Others		2,693,583	8,631,327	10,659,494
		181,346,176	315,522,194	130,139,136

Income from write-back of liabilities in 2020 pertains to reversal of outstanding accruals for various operating expenses of the Group.

(c) Finance costs

	Notes	2021	2020	2019
Interest expense on bank loans	16	85,064,862	100,798,442	235,099,374
Accretion of interest on deposits from tenants	17	34,371,391	38,105,279	36,299,084
Bank charges		615,825	742,851	940,453
		120,052,078	139,646,572	272,338,911

Note 24 - Accrued employee benefits

Accrued employee benefits as at December 31 consist of:

	2021	2020
Retirement benefit liability	64,676,831	85,328,539
Other employee benefits	-	4,469,520
	64,676,831	89,798,059

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. Under this 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. 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. 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 performs 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, 2021. The principal assumptions used by the actuary for the years ended December 31 are as follows:

	2021	2020	2019
Discount rate	4.89%	3.31%	4.63%
Salary increase rate	3.50%	3.00%	4.00%

The retirement benefit assets and liabilities recognized in the consolidated statements of financial position as part of "other non-current assets" and "accrued employee benefits" amount to P17,350,712 and P64,676,831, respectively (2020 - P9,721,578 and P85,328,539).

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

	2021	2020
Fair value of plan assets	201,519,107	210,913,555
Present value of defined benefit obligations	(248,845,228)	(286,520,516)
	(47,326,121)	(75,606,961)

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	2021	2020	2019
Current service cost		39,761,124	32,092,941	36,399,571
Past service cost		-	785,741	456,690
Net interest cost		2,284,607	5,677,615	896,734
Net acquired obligation arising from transfer of employees		-	(450,667)	12,040
Pension expense	21	42,045,731	38,105,630	37,765,035

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

	2021	2020
At January 1	286,520,516	254,859,693
Interest cost	8,925,939	10,373,503
Current service cost	40,286,707	36,498,332
Past service Cost	-	785,741
Net acquired (released) obligation	482,727	(450,667)
Benefits paid directly by the Group	(21,422,284)	(25,716,226)
Transfers	(47,337,186)	(1,545,157)
Remeasurement losses (gains) from:		
Experience adjustments	-	4,195,231
Change in demographic assumptions	(102,769)	(305,738)
Changes in financial assumptions	(18,508,422)	7,825,804
At December 31	248,845,228	286,520,516

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

	2021	2020
At January 1	210,913,555	225,085,966
Interest income	5,825,411	9,336,087
(Gains) Losses on return on plan assets	(2,839,220)	1,109,135
Benefits paid from plan assets	(12,380,639)	(24,617,633)
At December 31	201,519,107	210,913,555

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, 2021 and 2020, the Group had no other transactions with the plan.

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

	2021	2020
Cash in banks	157,429	2,613,797
Money market deposits and trust funds	17,291,681	16,356,944
Investments in equity	116,106,602	26,188,270
Investments in debt instruments:		
Treasury notes and bonds	54,487,450	139,513,715
Corporate notes and bonds	13,475,945	26,240,829
	201,519,107	210,913,555

At December 31, 2021 and 2020, 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, 2021 and 2020.

Expected contribution to post-employment benefit plans for the year ending December 31, 2021 amounts to P33,728,576.

The weighted average duration of the defined benefit obligation is 14.70 years.

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

	2021	2020
Less than a year	45,680,104	56,185,350
Between one and five years	189,377,495	139,766,630
Over five years	723,824,559	779,773,075
	958,882,158	975,725,055

Critical accounting estimate - 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 sensitivity of the defined benefit obligation to changes in the weighted principal assumptions are as follows:

	Increase (decrease)	
	2021	2020
Discount rate		
Increase by 1.0%	(235,562,330)	(117,986,079)
Decrease by 1.0%	264,518,340	131,100,542
Salary increase rate		
Increase by 1.0%	226,382,983	130,735,717
Decrease by 1.0%	(203,380,296)	(114,906,838)

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 25 - Income taxes

Corporate Recovery and Tax Incentives for Enterprises Act

On March 26, 2021, RA No. 11534, otherwise known as the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE), was signed into law. Among the salient provisions of CREATE include changes to the Corporate Income Tax (CIT) rates as follows:

- Reduction of CIT rate to 20% applicable to domestic corporations with total net taxable income not exceeding P5 million and with total assets not exceeding P100 million (excluding land on which the business entity's office, plant and equipment are situated);
- Reduction of CIT rate to 25% shall be applicable to all other corporations subject to regular CIT; and
- Minimum corporate income tax (MCIT) rate shall also be amended to 1%, instead of 2%, for the period beginning July 1, 2020 until June 30, 2023.

The components of income tax (benefit) expense for the years ended December 31 follows:

	2021	2020	2019
Current	428,889,884	483,630,844	934,619,771
Deferred	(1,296,489,961)	(79,414,984)	120,190,611
	(867,600,077)	404,215,860	1,054,810,382

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

	2021	2020
Deferred income tax assets:		
Net operating loss carry over (NOLCO)	621,288,642	480,772,099
Advance rentals	61,911,753	120,525,165
Difference in profit, installment method versus PoC method	15,557,087	41,601,548
Deferred lease income	15,167,581	54,669,952
Accrued expenses	61,934,739	50,072,440
Accrued employee benefits	13,103,473	22,029,125
Unamortized funded past service cost	8,085,347	20,439,350
Guest and banquets prepayments and deposits	16,195,164	14,523,540
Minimum corporate income tax (MCIT)	1,795,825	9,213,894
Allowance for doubtful accounts	3,196,932	4,437,822
Unrealized loss on foreign exchange	-	732,285
Others	2,313,093	16,816,990
	820,549,636	835,834,210
Deferred income tax liabilities:		
Unrealized increase in fair value of investment property	(6,748,885,416)	(7,880,926,838)
Difference in profit, installment method versus PoC method	(217,568,458)	(415,560,246)
Difference between cost of condominium sales for accounting and income tax purposes	(33,780,439)	(40,321,738)
Unrealized increase in fair value of FVOCI	(37,731,829)	(14,969,103)
Day 1 difference on deposits from tenants	(1,814,323)	(8,618,386)
Rent income per PFRS 16/PAS 17	(7,341,373)	(8,855,258)
Interest income	(34,174,163)	(18,833,333)
Unrealized gain on foreign exchange	(2,048,612)	(640,099)
	(7,083,344,613)	(8,388,725,001)
Net deferred income tax liabilities	(6,262,794,977)	(7,552,890,791)

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

	2021	2020
Deferred income tax assets	615,730,128	465,150,772
Deferred income tax liabilities	(6,878,525,105)	(8,018,041,563)
	(6,262,794,977)	(7,552,890,791)

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:

	2021	2020
At January 1	(7,552,890,791)	(7,638,288,351)
Charged to profit or loss	1,296,489,961	79,414,984
(Charged) Credited to other comprehensive income	(6,394,147)	5,982,576
At December 31	(6,262,794,977)	(7,552,890,791)

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	2021	2020
2018	2021	-	95,193,368
2019	2022	16,799,864	16,799,864
2020	2025	353,902,384	353,902,384
2021	2026	727,974,689	-
		1,098,676,937	465,895,616
Unrecognized DTA at 25% (2020 - 30%)		274,669,234	139,768,685

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

	2021	2020	2019
Tax at statutory rate of 25% (2020 and 2019 - 30%)	330,669,017	547,738,693	1,342,973,723
Additions (reductions) to income tax resulting from:			
Unrecognized NOLCO	181,993,672	106,170,715	22,368,423
Other non-deductible expenses	9,036,596	35,259,005	11,113,270
Expired MCIT	-	-	4,289,203
MCIT	413	-	1,092,499
Interest income subjected to final tax	(583,546)	(3,886,994)	(13,213,618)
Dividend income	(79,293,277)	(3,900,741)	(16,662,522)
Share in net losses of associates	(101,176,855)	(55,660,066)	(30,371,134)
Other non-taxable income	(80,537,145)	(79,024,949)	(57,516,306)
Difference between itemized and optional standard deductions (OSD)	50,160	(142,479,803)	(209,263,156)
Effects of changes in statutory income tax rate	(1,127,759,112)	-	-
Effective income tax expense	(867,600,077)	404,215,860	1,054,810,382

Income tax payable amounted to P54,637,882 as at December 31, 2021 (2020 - P124,336,401).

Critical accounting judgment - Income tax

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.

Note 26 - Basic and diluted earnings per share

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

	2021	2020	2019
Net income attributable to the shareholders of Parent Company	2,124,062,600	1,469,965,012	3,056,001,858
Divided by the average number of outstanding common shares	4,761,918,337	4,761,918,337	4,761,918,337
Basic and diluted earnings per share	0.446	0.309	0.642

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

Note 27 - 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:

	2021		2020		
	Transactions	Outstanding receivables (payables)	Transactions	Outstanding receivables (payables)	Terms and conditions
Affiliates					
Rental income (a) (Note 5)	23,633,642	15,194,664	29,072,896	6,420,241	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.
Affiliates					
Management services (b)	32,602,756	32,078,702	25,284,920	26,540,621	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.
Reimbursed expenses (f)	3,212,499	1,462,982	3,780,125	1,184,864	
Affiliates share in Group's expenses (f)	323,224,545	550,223,531	323,231,434	420,199,422	
Advances (d)	-	1,144,187,554	-	1,144,187,553	
Associates					
Associates' share in Group's expenses (g)	1,307,075	7,013,348	1,693	5,706,273	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)		1,750,160,781		1,604,238,974	
Affiliates					
Marketing, management and other service fees (c)	20,461,749	(14,160,762)	27,589,496	(27,589,256)	Balances are to be settled in cash and are generally due within 30 days. These balances are non-interest bearing and not covered by any guarantee.
Condominium dues (e)	28,284,356	(8,672,138)	9,041,815	(4,475,323)	
Group's share in affiliates' expenses (g)	119,468,158	(102,805,846)	170,934,662	(140,492,088)	
Total (Note 15)		(125,638,746)		(172,556,667)	

Affiliates pertain to entities that have common directors or key management personnel.

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 the Parent Company. 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 for 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 include reservation, loyalty program, communication, and other group services fees. Basis of these various charges are stipulated in the Marketing and Reservations Agreement.

(d) The outstanding balance as at December 31, 2021 and 2020 amounting to P1,144,187,554 represents cash advances made by Classic Elite Holdings Limited from the Parent Company for working capital and project development.

(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.

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, 2021 and 2020. 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:

	2021		2020		
	Transactions	Outstanding receivables (payables)	Transactions	Outstanding receivables (payables)	Terms and conditions
Retirement fund					
Contributions			-	-	Refer to Note 24.
Advances	8,225,271	-	1,333,401	-	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	86,443,736	-	79,387,790	-	Salaries and wages are settled in cash at the period incurred. Other short-term benefits are payable within the current year. There were

	2021	2020		
				no stock options or other long-term benefits provided in 2021 and 2020 nor amounts due to/from key management personnel as at December 31, 2021 and 2020.
Post-employment benefits	7,918,421	5,063,313	-	Refer to Note 24.

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

	2021	2020	2019
At December 31			
Trade and other receivables	15,222,871,310	13,221,433,467	12,770,869,974
Accounts payable and other current liabilities	15,222,871,310	13,221,433,467	12,770,869,974
For the years ended December 31			
Rental revenue	79,700,212	89,620,954	244,211,871
Cost of sales and services	4,709,563	4,674,713	4,722,185
Operating expenses	353,498,127	397,888,017	656,566,364
Other income	(47,550,576)	199,948,889	273,682,354
Dividend income	2,188,720,000	2,732,934,200	2,281,532,000

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 P68,587,143 in 2021 (2020 - P47,381,177 ; 2019 - P113,770,373).

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. In 2009, the parties have revised the terms to reduce the consideration to 94%. The agreement is effective until December 31, 2002 and shall be renewed automatically on a yearly basis.

(b) 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.

(c) 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.

(d) 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.

(e) In 2011, SPDI obtained an unsecured, noninterest-bearing loan from SHIL amounting to P2,317,500,000, payable on demand. As at December 31, 2021 and 2020, this loan is still outstanding.

(f) The Parent Company's dividend income from declarations of its subsidiaries are as follows:

	2021	2020	2019
KSA	910,520,000	595,340,000	931,532,000
SLPC	-	225,000,000	725,000,000
SPDI	-	-	70,000,000
NCRI	-	20,000,000	35,000,000
SWWPI	120,000,000	175,000,000	-
KRC	570,000,000	400,000,000	-
SPMSI	16,200,000	15,500,000	13,000,000
SPSI	2,000,000	2,500,000	7,000,000
SPRC	-	-	-
TRDCI	570,000,000	1,299,594,200	500,000,000
	2,188,720,000	2,732,934,200	2,281,532,000

In 2021, TRDCI declared cash dividends amounting to P570,000,000 (2020 -P1,299,594,200; 2019 – P500,000,000) to KRC. The declaration was eliminated under both dividend income in the statement of total comprehensive income and dividends declared under equity in the statement of financial position.

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 28 - Provisions and 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 1998, the parties were directed by the RTC to undergo arbitration which resulted in promulgation in 2007 of the Arbitral Tribunal to be awarded to the principal contractor the sum of P38,518,503, net of the award to Parent Company amounting to P8,387,484.

Both parties appealed this decision to the Court of Appeals (CA) in 2008. In a resolution issued in 2009, the CA 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.

In 2009, both the Parent Company and the Principal Contractor filed a Petition for Review in Certiorari to the Supreme Court. The Parent Company prayed for a reversal of the decision of the CA and for payment of liquidated damages by the Principal Contractor. On the other hand, the Principal Contractor filed a motion to modify the decision of the CA and to be awarded the full amount of their claim.

On January 10, 2020, the Parent Company, through counsel, received a copy of the Supreme Court decision that resolved both Petitions for Review. On January 24, 2020, the Parent Company filed in the Supreme Court a motion for partial reconsideration of said SC decision, which to this date has not been resolved.

The Group has 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.

Critical accounting estimate - Provision

As at December 31, 2021, the Group recognized provision for a certain tax assessment (Note 15 and 22). The estimate of the probable costs for the resolution has been developed in consultation with outside legal counsel handling the Group's defense in this matter. Disclosure of additional details beyond the present disclosures may seriously prejudice the Company's position. Thus, as allowed by PAS 37 "Provisions, Contingent Liabilities and Contingent Assets", only general disclosures were provided.

Critical accounting judgment - Contingencies

The Parent Company is 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 - 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 15) 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:

	2021	2020
At January 1	401,750,551	383,914,764
Additions	12,992,923	56,566,473
Applications	(167,096,461)	(38,730,686)
At December 31	247,647,013	401,750,551

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

	Note	2021	2020
Current	15	90,958,156	168,788,961
Non-current		156,688,857	232,961,590
		247,647,013	401,750,551

Note 30 - Financial risk and capital management

30.1 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, 2021 and 2020.

30.1.1 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, 2021 and 2020 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 11) 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 16). Loans amounting to P1,190,897,677 as at December 31, 2021 (2020 - P1,196,172,130) have interest rates that are based on the higher between the PHP BVAL rate plus 1.60% per annum and the BSP overnight borrowing rate. A loan amounting to P6,515,000,000 as at December 31, 2021 (2020 - P4,683,333,334) has an interest rate subject to repricing 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. The other financial instruments of the Group are 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, 2021, 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 P77,058,977 (2020 - higher by/lower by P58,795,054) 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 of the reasonably possible change in interest rates.

30.1.2 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:

a. 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. Non-performing - 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:

	Performing (Level 1)	Under performing (Level 2)	Non-performing (Level 3)	Total
2021				
Current assets				
Cash and cash equivalents	1,361,049,108	-	-	1,361,049,108
Trade and other receivables	4,359,701,169	-	21,040,280	4,380,741,449
Financial assets at fair value through profit or loss	30,815,974	-	-	30,815,974
Refundable deposits	2,187,822	-	-	2,187,822
Non-current assets				
Advances to a joint venture	2,590,096,000	-	-	2,590,096,000
Refundable deposits	158,464,474	-	-	158,464,474
Financial assets at FVOCI	796,968,495	-	-	796,968,495
	9,299,283,042	-	21,040,280	9,320,323,322

	Performing (Level 1)	Under performing (Level 2)	Non-performing (Level 3)	Total
2020				
Current assets				
Cash and cash equivalents	1,542,884,690	-	-	1,542,884,690
Trade and other receivables	4,996,338,314	-	23,020,320	5,019,358,634
Financial assets at fair value through profit or loss	33,626,210	-	-	33,626,210
Refundable deposits	2,187,822	-	-	2,187,822
Non-current assets				
Advances to a joint venture	1,000,000,000	-	-	1,000,000,000
Refundable deposits	137,088,235	-	-	137,088,235
Financial assets at FVOCI	797,568,496	-	-	797,568,496
	8,509,693,767	-	23,020,320	8,532,714,087

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, 2021 amounted to P21,040,280 (2020 - P23,020,320). 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 the 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:

	2021	2020
Universal banks	644,523,215	1,345,437,973
Thrift banks	130,525,796	131,661,552
Commercial banks	42,573,701	65,785,165
	817,622,712	1,542,884,690

Cash in banks and cash equivalents as at December 31, 2021 and 2020 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, 2021 and 2020 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, 2021					
Expected loss rate	0%	0%	0%	100%	
Trade receivables	2,545,344,193	-	-	21,040,280	2,566,384,473
Loss allowance	-	-	-	21,040,280	21,040,280
December 31, 2020					
Expected loss rate	0%	0%	0%	100%	
Trade receivables	3,324,982,596	-	-	23,020,320	3,348,002,916
Loss allowance	-	-	-	23,020,320	23,020,320

The Group's receivables classified as current did not have history of loss arising from contract with customers as it is able to repossess the sold property consequent to customer's inability to pay the transaction price. The Group believes that this assessment is adequate and reasonable in view of the credit quality of contract receivables. Accordingly, the expected credit loss on these fully performing contract receivables is deemed insignificant for financial reporting purposes.

Non-trade receivables

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 are considered as high performing financial assets. Considering the balance and average term of outstanding lease arrangements, management believes that the impact of discounting is not significant.

30.1.3 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.

The following table shows the Group's financial instruments as at December 31 based on its contractual maturity profile:

	0 - 90 days	91 - 180 days	181 - 360 days	Beyond 360 days	Total
At December 31, 2021					
Bank loans	5,440,000,000	941,666,666	228,444,711	1,095,786,300	7,705,897,677
Accounts payable and other current liabilities*	3,165,681,540	-	-	-	3,165,681,540
Deposits from tenants	-	-	845,472,994	193,502,993	1,038,975,987
Installment payable	-	47,883,235	-	-	47,883,235
Dividends payable	-	61,897,055	-	-	61,897,055
Future interest payable	50,108,735	46,392,593	45,167,794	32,740,619	174,409,741
	8,655,790,275	1,097,839,549	1,119,085,499	1,322,029,912	12,194,745,235
At December 31, 2020					
Bank loans	1,810,000,000	1,840,000,000	633,333,333	1,596,172,131	5,879,505,464
Accounts payable and other current liabilities*	3,935,419,915	-	-	-	3,935,419,915
Deposits from tenants	-	-	614,727,181	540,045,750	1,154,772,931
Installment payable	-	142,751,080	-	-	142,751,080
Dividends payable	-	74,031,392	-	-	74,031,392
Future interest payable	41,722,432	36,918,244	56,903,492	119,429,891	254,974,059
	5,787,142,347	2,093,700,716	1,304,964,006	2,255,647,772	11,441,454,841

**excluding advance rentals, contract liabilities, customers' deposits, reservation payable, output VAT, deferred output VAT and payable to government agencies and provision for restructuring*

30.2 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 2021 and 2020.

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:

	2021	2020
Net debt		
Long-term loan	7,705,897,677	5,879,505,464
Less: cash and cash equivalents	1,376,480,154	1,549,970,914
	6,329,417,523	4,329,534,550
Capital		
Total equity	42,939,023,381	41,674,367,167
Less: Non-controlling interest	5,632,156,914	5,950,341,446
	37,306,866,467	35,724,025,721
Gearing ratio	16.97%	12.12%

The Group was able to meet its capital management objectives.

Loan covenants

Under the terms of the major borrowing facilities, the Group is required to comply with certain financial covenants. Details of the Group's compliance with these covenants are disclosed in Note 16.

30.3 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			
	Note	(Level 1)	(Level 2)	(Level 3)	Total
2021					
Assets measured at fair value					
Financial assets at fair value through profit or loss	4	30,815,974	-	-	30,815,974
Investment properties:	10				
Land		-	10,034,573,023	5,871,373,900	15,905,946,923
Buildings		-	2,455,826,617	17,023,220,100	19,479,046,717
Financial assets at FVOCI:	11				
Quoted		27,350,015	-	-	27,350,015
Unquoted		-	-	769,618,480	769,618,480
Assets for which fair values are disclosed					
Financial asset at amortized cost					
Refundable deposits	14	-	158,464,474	-	158,464,474
Liabilities for which fair values are disclosed					
Installment payable	16	-	47,883,236	-	47,883,236
Deposits from tenants	17	-	1,038,975,987	-	1,038,975,987
2020					
Assets measured at fair value					
Financial assets at fair value through profit or loss	4	33,626,210	-	-	33,626,210
Investment properties:	10				
Land		-	10,034,573,023	5,871,373,900	15,905,946,923
Buildings		-	1,984,706,042	17,023,220,100	19,007,926,142
Financial assets at FVOCI:	11				
Quoted		27,950,000	-	-	27,950,000
Unquoted		-	-	769,618,496	769,618,496
Assets for which fair values are disclosed					
Financial asset at amortized cost					
Refundable deposits	14	-	136,967,397	-	136,967,397
Liabilities for which fair values are disclosed					
Installment payable	16	-	142,751,080	-	142,751,080
Deposits from tenants	17	-	1,154,772,931	-	1,154,772,931

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 2021 and 2020.

The methods and assumptions used to estimate the fair value of each class of financial instrument are disclosed in the referred notes in the table above.

Note 31 - Summary of significant accounting and financial reporting policies

31.1 Basis of preparation

The accompanying consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards, as modified by the application of the following financial reporting reliefs for real estate companies issued by the Securities and Exchange Commission in response to the COVID19 pandemic:

- Assessing whether the transaction price includes significant financing component (SFC);
- Impact of implementing IFRIC Agenda Decision on Over Time Transfers of Constructed Goods under PAS 23, *Borrowing Cost*.

The reliefs cover only current-year transactions and events and do not impact the comparative periods. 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 as follows:

- Determination of fair values of investment properties (Note 10)
- Useful lives of property and equipment (Note 12)
- Determining retirement benefit obligation (Note 24)
- Estimation of percentage-of-completion of the Group's projects (Note 6)
- Recoverability of investment and advances (Note 8)
- Joint control assessment (Note 8)
- Distinction between properties held for sale, investment properties, and property and equipment (Note 10)
- Revenue Recognition (Note 6)
- Estimation of net realizable value of properties held for sale (Note 6)
- Impairment of non-financial assets (Note 12)
- Contingencies (Note 28)
- Classification of leases as operating lease (Note 10)
- Income tax (Note 25)

31.2 Changes in accounting policy and disclosures

(a) New standards, amendments and interpretations adopted by the Group

The Group has adopted certain amendments for the first-time effective January 1, 2021:

- COVID-19-Related Rent Concessions – amendments to PFRS 16; and
- Interest Rate Benchmark Reform – Phase 2 – amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4, and PFRS 16.

The amendments listed above did not have material impact on the amounts recognized in the current and prior periods and is not expected to significantly impact future periods.

(b) Deferral of implementation of amendment to existing standard and interpretations

Deferral of the following provisions of PIC Q&A 2018-12 and IFRIC Agenda Decision on Over Time Transfer of Constructed Good (PAS 23, Borrowing Costs) until December 31, 2023

On December 15, 2020, the SEC issued SEC Memorandum Circular No. 34 Series of 2020 to further extend the deferral provided under SEC under Memorandum Circular Nos. 14-2018, 3-2019 and 4-2020 for another period of three (3) years or until December 31, 2023, to afford the industry reasonable time to evaluate the impact thereto or as the SEC will later prescribe. This decision is pursuant to RA 11494, Bayanihan to Recover as One Act which allows the SEC to adopt measures to enable companies to cope with the impact of the Covid-19 pandemic. The Group availed the following reliefs:

i. *Assessing whether the transaction price includes SFC*

   There is SFC in the contracts to sell when there is a mismatch between the POC of real estate projects and schedule of payments. PIC, in its response to the industry dated November 11, 2020, allows the Real Estate Industry to provide support to their specific payments schemes that there is no SFC, if the difference between the promised consideration and the cash selling price of the good or service arises for reasons other than providing financing to the buyers.

   In the event of the existence of SFC, interest income would be recognized when the POC is ahead of the customer payments and interest expense would be recognized when the customer payments are ahead of the POC. The Group has initially assessed, however, that the timing difference arising from existing sales contracts does not necessarily result in a significant financing component.

ii. *Impact of implementing IFRIC Agenda Decision on Over Time Transfers of Constructed Goods under PAS 23, Borrowing Cost*

   In March 2019, IFRIC published an Agenda Decision on whether borrowing costs can be capitalized on real estate inventories that are under construction and for which the related revenue will be recognized over time under par. 35(c) of PFRS 15. IFRIC concluded that borrowing costs cannot be capitalized for such real estate inventories as they do not meet the definition of a qualifying asset under PAS 23 considering that these inventories are ready for their intended sale in their current condition.

   Had the Group adopted the IFRIC agenda decision, borrowing costs capitalized as part of properties held for sale related to projects with pre-selling activities should have been expensed out in the period incurred. A restatement would have impact on interest expense and bank charges, cost of sales and services, income tax expense, properties held for sale, deferred income tax liabilities, net and opening balance of retained earnings.

(c) 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, 2021 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. Those which may be relevant to the Group are set out below:

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

  The amendments to PAS 1 and PFRS Practice Statement 2, effective January 1, 2023, require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

31.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at December 31, 2021 and 2020. 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:

	Ownership %		
Nature and name of entity	2021	2020	2019
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
SPI Property Holdings, Inc. (SPI-PHI)	100	100	-
SPI Land Development, Inc. (SPI-LDI)	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
SPI Property Developers, Inc. (SPI-PDI)	100	100	-
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	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, 2021 and 2020 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 the consideration is transferred, and the difference of the non-controlling interest recognized 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 recognized directly in profit or loss.

Inter-company transactions, balances and unrealized 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 investment 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 31.12.

Dilution gains and losses arising from 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.

31.4 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.

31.5 Financial instruments

31.5.1 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 FVOCI.

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

31.5.2 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 from 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 statements 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 14) in the consolidated statements 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 statements of total comprehensive income.

  The Group does not have debt instruments at FVOCI as at December 31, 2021.

- 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, 2021.

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 statements of financial position (Note 11).

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.

31.5.3 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, 2020 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.

31.5.4 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, 2021.

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 15), installment payable (Note 16), deposits from tenants (Note 17), dividends payable (Note 19), accrued employee benefits (excluding retirement benefits) (Note 24) and bank loans (Note 16) are classified under financial liabilities at amortized cost.

31.5.5 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.

31.5.6 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.

31.5.7 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.

31.5.8 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, 2021 and 2020.

31.6 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, 2020 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 31.5 for other relevant accounting policies on trade and other receivables.

31.7 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.

31.8 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.

Restricted fund represents cash deposit with a third party for a purchase of a property. Restricted fund 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.

31.9 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 31.10), 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 31.12.

31.10 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 31.12).

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.

31.11 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 cash generating units (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.

31.12 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 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.

31.13 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 31.5.

31.14 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.

31.15 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, 2023 (Note 31.2).

31.16 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.

31.17 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.

31.18 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.

31.19 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 include 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.

31.20 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.

31.21 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.

31.22 Income 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;

Revenue

(a) 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 1-5 years.

The Group satisfies its performance obligation as it develops the property. In accordance with PFRS 15 and 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. 34-2020 dated December 15, 2020. 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, 2024 or 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.

31.21 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.

31.22 Income 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;

Revenue

(a) 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 1-5 years.

The Group satisfies its performance obligation as it develops the property. In accordance with PFRS 15 and 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. 34-2020 dated December 15, 2020. 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, 2024 or 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.

(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 operations

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 operations 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.

31.23 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 31.9).

(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 31.2).

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.

31.24 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.

31.25 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 shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

31.26 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.

31.27 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.

31.28 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.

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BDO Unibank, Inc.
Philippine Savings Bank
Metropolitan Bank and Trust Company
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LEGAL COUNSELS
Abello Concepcion Regala & Cruz
Romulo, Mabanta, Buenaventura,
Sayoc & Delos Angeles

PROPERTY VALUER
Royal Asia Appraisal Corporation

STOCK TRANSFER AGENT
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KEY DATES
- Regular Board Meeting: Quarterly
- Annual Stockholder's Meeting:
  Any day in June of each year
- Fiscal Year: January 1 to December 31


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