# COPY FOR THE
# BUREAU OF INTERNAL REVENUE

Isla Lipana & Co.

## Independent Auditor's Report

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

### Report on the Audits of the Financial Statements

#### *Our Opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Shang Properties, Inc. (the "Company") as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

*What we have audited*

The financial statements of the Company comprise:

- the statements of financial position as at December 31, 2022 and 2021;
- the statements of comprehensive income for the years ended December 31, 2022 and 2021;
- the statements of changes in equity for the years ended December 31, 2022 and 2021;
- the statements of cash flows for the years ended December 31, 2022 and 2021; and
- the notes to the separate 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 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 Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

***Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements***

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

In preparing the separate 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.

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

***Auditor's Responsibilities for the Audit of the Separate Financial Statements***

Our objectives are to obtain reasonable assurance about whether the separate 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 separate financial statements.

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 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 Company's internal control.

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

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

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

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

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

Isla Lipana & Co.



***Report on the Bureau of Internal Revenue Requirement***

Our audits were conducted for the purpose of forming an opinion on the basic separate financial statements taken as a whole. The supplementary information in Note 26 to the separate financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic separate financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic separate financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic separate financial statements taken as a whole.

**Isla Lipana & Co.**

Zaldy D. Aguirre
Partner
CPA Cert No. 0105660
P.T.R. No. 0024447, issued on January 9, 2023, 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. 08-000745-077-2020, issued on December 14,2020; effective until December 13, 2023
BOA/PRC Reg. No. 0142, effective until November 14, 2025

Makati City
March 22, 2023

Isla Lipana & Co.

Statement Required by Section 8-A, Revenue Regulations No. V-1

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

None of the partners of the firm has any financial interest in Shang Properties, Inc. or any family relationships with its president, manager, or shareholders.

The supplementary information on taxes and licenses is presented in Note 26 to the separate financial statements.

**Isla Lipana & Co.**

Zaldy D. Aguirre
Partner
CPA Cert No. 0105660
P.T.R. No. 0024447, issued on January 9, 2023, 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
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Makati City
March 22, 2023

**Shang Properties, Inc.**

Statements of Financial Position
As at December 31, 2022 and 2021
(All amounts in Philippine Peso)

| | Notes | 2022 | 2021 |
|---|---|---|---|
| **A S S E T S** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 2 | 292,140,463 | 184,664,709 |
| Financial assets at fair value through profit or loss | 3 | 3,116,445 | 2,767,676 |
| Trade and other receivables, net | 4 | 10,720,543,827 | 8,275,192,152 |
| Prepayments and other current assets | 6 | 299,866,982 | 295,023,363 |
| Total current assets | | 11,315,667,717 | 8,757,647,900 |
| **Non-current assets** | | | |
| Investments and advances | 7 | 15,528,543,698 | 14,098,617,177 |
| Investment properties | 8 | 13,987,020,630 | 13,951,003,549 |
| Financial assets at fair value through other comprehensive income | 9 | 201,983,642 | 186,483,642 |
| Property and equipment, net | 10 | 49,078,021 | 60,662,574 |
| Other non-current assets | 11 | 847,541 | 22,326,425 |
| Total non-current assets | | 29,767,473,532 | 28,319,093,367 |
| **Total assets** | | 41,083,141,249 | 37,076,741,267 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Accounts payable and other current liabilities | 12 | 2,809,780,408 | 2,320,948,071 |
| Bank loans | 13 | 6,940,000,000 | 5,390,000,000 |
| Dividends payable | 14 | 61,167,401 | 61,896,969 |
| Total current liabilities | | 9,810,947,809 | 7,772,845,040 |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities, net | 19 | 3,402,500,897 | 3,400,175,897 |
| Retirement benefit liability | 18 | 20,093,595 | 4,155,550 |
| Deposits from tenants | | 1,269,161 | 1,269,161 |
| Total non-current liabilities | | 3,423,863,653 | 3,405,600,608 |
| Total liabilities | | 13,234,811,462 | 11,178,445,648 |
| **Equity** | | | |
| Share capital | 14 | 4,764,058,982 | 4,764,058,982 |
| Share premium | 14 | 1,210,073,869 | 1,210,073,869 |
| Treasury shares | 14 | (6,850,064) | (6,850,064) |
| Other comprehensive income | 9, 18 | 85,550,000 | 71,832,670 |
| Retained earnings | 14 | 21,795,497,000 | 19,859,180,162 |
| Total equity | | 27,848,329,787 | 25,898,295,619 |
| **Total liabilities and equity** | | 41,083,141,249 | 37,076,741,267 |

The notes on pages 1 to 48 are integral part of these separate financial statements.

**Shang Properties, Inc.**

Statements of Comprehensive Income
For the years ended December 31, 2022 and 2021
(All amounts in Philippine Peso)

| | Notes | 2022 | 2021 |
|---|---|---|---|
| **Rental revenue** | 8, 22 | 169,789,300 | 68,587,143 |
| **Costs of services** | 8 | 18,947,416 | 14,511,255 |
| **Gross profit** | | 150,841,884 | 54,075,888 |
| **Operating expenses** | | | |
| Staff costs | 15 | 256,032,431 | 261,432,075 |
| Taxes and licenses | | 21,652,140 | 37,588,028 |
| Depreciation and amortization | 10 | 22,540,329 | 22,705,864 |
| Other operating expenses | 16 | 113,254,435 | 82,858,354 |
| | | 413,479,335 | 404,584,321 |
| **Other income** | | | |
| Dividend income | 20 | 1,451,982,012 | 1,630,378,790 |
| Miscellaneous | 17 | 4,711,119 | 97,325,966 |
| | | 1,456,693,131 | 1,727,704,756 |
| **Income from operations** | | 1,194,055,680 | 1,377,196,323 |
| **Finance income, net** | | | |
| Finance income | 2, 7 | 111,618,988 | 78,610,295 |
| Finance costs | 13 | (3,195,395) | (16,250,114) |
| | | 108,423,593 | 62,360,181 |
| Share in net income of a joint venture | 7 | 1,422,113,933 | 404,707,422 |
| **Income before income tax** | | 2,724,593,206 | 1,844,263,926 |
| (Provision for) benefit from income tax | 19 | (2,659,600) | 556,966,789 |
| **Net income for the year** | | 2,721,933,606 | 2,401,230,715 |
| **Other comprehensive income (loss)** | | | |
| Items that will not be subsequently reclassified to profit or loss | | | |
| Increase (decrease) in fair value of equity investments at fair value through other comprehensive income, net of tax | 9 | 13,175,000 | (1,633,324) |
| Remeasurement on retirement benefit obligation, net of tax | 18 | 542,330 | 16,254,940 |
| | | 13,717,330 | 14,621,616 |
| **Total comprehensive income for the year** | | 2,735,650,936 | 2,415,852,331 |
| **Basic and diluted earnings per share** | 14 | 0.57 | 0.50 |

The notes on pages 1 to 48 are integral part of these separate financial statements.

**Shang Properties, Inc.**

Statements of Changes in Equity
For the years ended December 31, 2022 and 2021
(All amounts in Philippine Peso)

| | Share capital (Note 14) | Share premium (Note 14) | Treasury shares (Note 14) | Other comprehensive income (loss): Cumulative changes in fair value of FVOCI (Note 9) | Other comprehensive income (loss): Remeasurement on retirement benefit obligation (Note 18) | Other comprehensive income (loss): Total comprehensive income | Retained earnings (Note 14) | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balances at January 1, 2021** | 4,764,058,982 | 1,210,073,869 | (6,850,064) | 88,250,172 | (31,039,118) | 57,211,054 | 18,048,427,321 | 24,072,921,162 |
| **Comprehensive income** | | | | | | | | |
| Net income for the year | - | - | - | - | - | - | 2,401,230,715 | 2,401,230,715 |
| Other comprehensive income | - | - | - | (1,633,324) | 16,254,940 | 14,621,616 | - | 14,621,616 |
| Total comprehensive income | - | - | - | (1,633,324) | 16,254,940 | 14,621,616 | 2,401,230,715 | 2,415,852,331 |
| **Transaction with owners** | | | | | | | | |
| Cash dividends declared (Note 14) | - | - | - | - | - | - | (590,477,874) | (590,477,874) |
| **Balances at December 31, 2021** | 4,764,058,982 | 1,210,073,869 | (6,850,064) | 86,616,848 | (14,784,178) | 71,832,670 | 19,859,180,162 | 25,898,295,619 |
| **Comprehensive income** | | | | | | | | |
| Net income for the year | - | - | - | - | - | - | 2,721,933,606 | 2,721,933,606 |
| Other comprehensive income | - | - | - | 13,175,000 | 542,330 | 13,717,330 | - | 13,717,330 |
| Total comprehensive income | - | - | - | 13,175,000 | 542,330 | 13,717,330 | 2,721,933,606 | 2,735,650,936 |
| **Transaction with owners** | | | | | | | | |
| Cash dividends declared (Note 14) | - | - | - | - | - | - | (785,616,768) | (785,616,768) |
| **Balances at December 31, 2022** | 4,764,058,982 | 1,210,073,869 | (6,850,064) | 99,791,848 | (14,241,848) | 85,550,000 | 21,795,497,000 | 27,848,329,787 |

The notes on pages 1 to 48 are integral part of these separate financial statements.

**Shang Properties, Inc.**

Statements of Cash Flows
For the years ended December 31, 2022 and 2021
(All amounts in Philippine Peso)

| | Notes | 2022 | 2021 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Income before income tax | | 2,724,593,206 | 1,844,263,926 |
| Adjustments for: | | | |
| Interest expense | 13 | 3,195,395 | 16,250,114 |
| Depreciation and amortization | 10 | 22,540,329 | 22,705,864 |
| Retirement benefit expense | 18 | 14,001,682 | 18,068,605 |
| Unrealized foreign exchange gain, net | 2 | (4,672,629) | (816,538) |
| (Loss) gain on fair value adjustment of financial assets at fair value through profit or loss | 3 | (348,769) | 683,271 |
| Interest income | 2, 7 | (111,618,988) | (78,610,295) |
| Share in net income from a joint venture | 7 | (1,422,113,933) | (404,707,422) |
| Dividend income | 20 | (1,451,982,012) | (1,630,378,790) |
| Operating loss before working capital changes | | (226,405,719) | (212,541,265) |
| Changes in working capital: | | | |
| Trade and other receivables | | (2,445,311,954) | (5,683,295,802) |
| Properties held for sale | | - | 12,082,779 |
| Prepayments and other current assets | | (7,503,219) | 1,895,413 |
| Other non-current assets | | 21,478,884 | 885,740,499 |
| Accounts payable and other current liabilities | | 488,832,336 | 98,171,354 |
| Cash absorbed by operations | | (2,168,909,672) | (4,897,947,022) |
| Interest received | | 111,579,269 | 146,187,539 |
| Retirement benefit liabilities released due to transfers | 18 | 2,478,692 | 482,727 |
| Net cash used in operating activities | | (2,054,851,711) | (4,751,276,756) |
| **Cash flows from investing activities** | | | |
| Dividends received | 20 | 1,451,982,012 | 1,546,472,029 |
| (Decrease) increase in investments and advances | 7 | (7,812,588) | 2,094,185,110 |
| Deductions from (additions to): | | | |
| Investment properties | 8 | (36,017,081) | 614,677,290 |
| Property and equipment | 10 | (10,955,776) | (10,182,328) |
| Net cash provided by investing activities | | 1,397,196,567 | 4,245,152,101 |
| **Cash flows from financing activities** | | | |
| Availment of loan | 13 | 3,460,000,000 | 2,590,000,000 |
| Payments of: | | | |
| Cash dividends | 14 | (786,346,336) | (581,189,991) |
| Loan principal | 13 | (1,910,000,000) | (1,433,333,334) |
| Interest | 13 | (3,195,395) | (17,534,959) |
| Net cash provided by financing activities | | 760,458,269 | 557,941,716 |
| **Net increase in cash and cash equivalents** | | 102,803,125 | 51,817,061 |
| Cash and cash equivalents as at January 1 | | 184,664,709 | 132,031,110 |
| Effects of exchange rate changes on cash and cash Equivalents | | 4,672,629 | 816,538 |
| **Cash and cash equivalents as at December 31** | 2 | 292,140,463 | 184,664,709 |

The notes on pages 1 to 48 are integral part of these separate financial statements.

**Shang Properties, Inc.**

Notes to the Separate Financial Statements
As at and for the years ended December 31, 2022 and 2021
(In the notes, all amounts are shown in Philippine Peso, unless otherwise stated)

## **Note 1 - General information**

Shang Properties, Inc. ("the 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 properties of all kinds.

The Company is the owner of the land being leased out to a related party that operates the main building and main-wing parking building of Shangri-La Plaza Mall in Mandaluyong City. It also owns the carpark building located in the north wing of the same mall in Mandaluyong City also being leased out to another related party.

The 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 Company has its primary listing on 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 P2.54 per share. As at December 31, 2022, the Company has 5,144 shareholders (2021 - 5,160). The details of the Company's shareholders are disclosed in the annual report.

*COVID-19 pandemic*

The COVID-19 pandemic did not have a significant impact on the Company as at and for the years ended December 31, 2022 and 2021. While the pandemic still poses some risk and uncertainties, the Company, however, remains confident in its ability to absorb some conceivable financial shocks that may arise due to volatile economic conditions.

The separate financial statements have been approved and authorized for issue in accordance with a resolution of the Board of Directors dated March 22, 2023.

## Note 2 - Cash and cash equivalents

Cash and cash equivalents as at December 31 consist of:

| | 2022 | 2021 |
|---|---|---|
| Cash on hand | 303,264 | 318,264 |
| Cash in banks | 58,406,067 | 163,639,769 |
| Cash equivalents | 233,431,132 | 20,706,676 |
| | 292,140,463 | 184,664,709 |

For the purpose of presentation in the statements of cash flows, cash equivalents include short-term, highly liquid investments (e.g., time deposit placements) with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash in banks and cash equivalents earn interest at prevailing market rates. Total interest income earned and interest receivable for the year ended and as at December 31, 2022 amounted to P1,212,001 and P235,294, respectively (2021 - P252,813 and P43,083, respectively) (Note 4).

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

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| | Foreign currency | Exchange rate | Peso Equivalent | Foreign currency | Exchange rate | Peso Equivalent |
| US Dollar | 412,775 | 56.12 | 23,164,933 | 320,021 | 50.58 | 16,185,837 |
| HK Dollar | - | - | - | 2,000 | 6.39 | 12,776 |
| | | | 23,164,933 | | | 16,198,613 |

Unrealized foreign exchange gain charged to income for the year ended December 31, 2022 amounted to P4,672,629 (2021 - P816,538) (Note 17).

## Note 3 - Financial assets at fair value through profit or loss

The account represents shares of stock of various publicly listed companies based on current bid prices in an active market (Level 1 valuation). Movements in the account for the years ended December 31 are as follows:

| | Note | 2022 | 2021 |
|---|---|---|---|
| January 1 | | 2,767,676 | 3,450,947 |
| (Loss) gain on fair value adjustments (included in Miscellaneous income) | 17 | 348,769 | (683,271) |
| December 31 | | 3,116,445 | 2,767,676 |

**Note 4 - Trade and other receivables, net**

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

| | Notes | 2022 | 2021 |
|---|---|---|---|
| Trade | | | |
| Rental - related parties | 20 | 53,783,240 | 70,304,764 |
| Rental - third parties | | 235,884 | 1,740,872 |
| Non-trade | | | |
| Receivables from related parties | 20 | 10,665,413,871 | 8,171,813,082 |
| Advances to officers and employees | | 142,147 | 1,165,614 |
| Interest | 2 | 235,294 | 43,083 |
| Others | | 890,148 | 30,124,737 |
| | | 10,720,700,584 | 8,275,192,152 |
| Allowance for impairment of non-trade receivables | | (156,757) | - |
| | | 10,720,543,827 | 8,275,192,152 |

All receivables are expected to be collected within 12 months (current). They are carried at amortized cost which approximates fair value as of reporting date.

*Trade receivables*

Rent receivables are non-interest-bearing and pertain to rental fees charged to the Company's subsidiaries, an affiliate and third parties for the use of commercial and carpark spaces. The normal credit terms range from 30 to 60 days.

*Receivables from related parties*

Receivables from related parties comprise mainly advances for operating capital requirements or expenses paid by the Company on behalf of the related parties. Further information on this account is disclosed in Note 20.

*Advances to officers and employees*

This account represents noninterest-bearing cash advances that are settled via payroll deduction or expense liquidation.

*Other non-trade receivables*

These pertain to advances to suppliers and contractors, receivables from a government agency and the retirement fund. The carrying amounts of the Company's trade and other receivables are all denominated in Philippine Peso.

**Note 5 - Properties held for sale**

Properties held for sale consist of condominium units for sale in the ordinary course of business. Movements in properties held for sale for the years ended December 31 are as follows:

| | 2022 | 2021 |
|---|---|---|
| January 1 | - | 12,082,779 |
| Recognized cost of condominium units sold | - | - |
| Transfer to investment properties | - | (12,082,779) |
| December 31 | - | - |

Properties held for sale are stated at cost and no allowance for write-down is provided as at December 31, 2022 and 2021.

**Note 6 - Prepayments and other current assets**

Prepayments and other current assets as at December 31 consist of:

| | 2022 | 2021 |
|---|---|---|
| Creditable withholding tax | 280,490,177 | 271,607,532 |
| Input VAT | 16,175,346 | 20,609,990 |
| Prepaid expenses | 3,201,459 | 2,805,841 |
| | 299,866,982 | 295,023,363 |

Prepaid expenses pertain to membership fees and dues, subscriptions and insurance.

## Note 7 - Investments and advances

Investments and advances at December 31 consist of:

| | Ownership % | | Amount | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Subsidiaries: | | | | |
| Property development: | | | | |
| Shang Properties Realty Corporation (SPRC) | 100 | 100 | 950,036,621 | 950,036,621 |
| Shang Wack Wack Properties, Inc. (SWWPI) | 100 | 100 | 850,000,000 | 850,000,000 |
| Shang Property Developers, Inc. (SPDI) | 100 | 100 | 5,000,000 | 5,000,000 |
| SPI Land Development, Inc. | 100 | 100 | 1,000,000 | 1,000,000 |
| SPI Property Developers, Inc. | 100 | 100 | 1,000,000 | 1,000,000 |
| SPI Property Holdings, Inc. | 100 | 100 | 1,000,000 | 1,000,000 |
| Leasing: | | | | |
| KSA Realty Corporation (KSA) | 70 | 70.04 | 4,333,249,902 | 4,333,249,902 |
| Shangri-la Plaza Corporation (SLPC) | 100 | 100 | 699,882,830 | 699,882,830 |
| SPI Parking Services, Inc. (SPSI) | 100 | 100 | 250,000 | 250,000 |
| Real estate: | | | | |
| KPPI Realty Corporation (KRC) | 100 | 100 | 125,000,000 | 125,000,000 |
| New Contour Realty, Inc. (NCRI) | 100 | 100 | 50,000 | 50,000 |
| Perfect Sites, Inc. (PSI) | 100 | 100 | 250,000 | 250,000 |
| Ivory Post Properties, Inc. (IPPI) | 100 | 100 | 250,000 | 250,000 |
| Shang Fort Bonifacio Holdings, Inc. (SFBHI) | 100 | 100 | 500,000 | 500,000 |
| Shang Global City Holdings, Inc. (SGCHI) | 100 | 100 | 500,000 | 500,000 |
| Martin B Properties, Inc. (MBPI) | 100 | 100 | 400,000 | 400,000 |
| Property management: | | | | |
| KPPI Management Services Corporation (KMSC) | 100 | 100 | 1,000,000 | 1,000,000 |
| Shang Property Management Services, Inc. (SPMSI) | 100 | 100 | 50,000 | 50,000 |
| Other supplementary business: | 100 | 100 | | |
| Gipsey, Ltd. (Gipsey) | 100 | 100 | 2,095,810,078 | 2,095,810,078 |
| EPHI Logistics Holdings, Inc. (ELHI) | 100 | 100 | 900,000 | 900,000 |
| Guidebo Properties, Inc. | 100 | 100 | 62,500 | 62,500 |
| Laguna Hills Property Ventures, Inc. | 100 | 100 | 62,500 | 62,500 |
| | | | 9,066,254,431 | 9,066,254,431 |
| Immaterial Associate: | | | | |
| Real estate: | | | | |
| Ideal Sites and Properties, Inc. (ISPI) | 40 | 40 | 250,000 | 250,000 |
| Joint venture: | | | | |
| Real estate: | | | | |
| Shang Robinsons Properties, Inc. (SRPI) | 50 | 50 | 3,157,821,432 | 1,727,894,911 |
| Deposits for future share subscription, and advances to subsidiaries, associate, and joint venture | | | 4,837,725,520 | 4,837,725,520 |
| Allowance for impairment losses | | | (1,533,507,685) | (1,533,507,685) |
| | | | 15,528,543,698 | 14,098,617,177 |

The following subsidiaries and associates are owned through acquisition of shares of stock:

(a) The Rise Development Company, Inc. (TRDCI) - A wholly owned subsidiary of KRC.
(b) Silver Hero Investments Limited (SHIL) - A wholly owned subsidiary of Gipsey.
(c) Shang Global City Properties, Inc. (SGCPI) - 59.4% owned by SGCHI and 0.6% owned by SFBHI. Both SGCHI and SFBHI are wholly owned subsidiaries of the Company.
(d) Sky Leisure Properties, Inc. (SLPI) - A wholly owned subsidiary of PSI.

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

The Company takes effective and absolute control over key decisions, operating strategies, and key policies of KSA, SGCPI, and ELHI. In compliance with the provisions of PAS 27, *Consolidated and Separate Financial Statements*, investments in subsidiaries, associate and joint venture are accounted for using the cost method in these separate financial statements.

There has been no movement in the allowance for impairment losses as at December 31, 2022 and 2021.

There are no significant restrictions on the ability of the subsidiaries and associates to transfer cash assets, pay dividends or pay advances to the Company and between subsidiaries.

The summarized financial information of subsidiaries with significant non-controlling interest as at and for the year ended December 31, 2022 are as follows:

| | KSA | SGCPI |
|---|---|---|
| Total current assets | 170,010,211 | 715,203,685 |
| Total non-current assets | 10,664,105,858 | 8,050,292,915 |
| Total assets | 10,834,116,069 | 8,765,496,600 |
| Total current liabilities | (334,153,584) | (1,972,889,671) |
| Total non-current liabilities | (2,358,076,887) | (382,000,030) |
| Total liabilities | (2,692,230,471) | (2,354,889,701) |
| Net assets | 8,141,885,598 | 6,410,606,899 |
| Non-controlling interest share in net assets | 2,442,565,679 | 2,564,242,759 |

| | | |
|---|---|---|
| Revenue | 948,079,146 | 2,844,976,129 |
| Cost and expenses | (118,057,033) | (2,233,696,080) |
| Other expense | (1,299,536) | (101,662,151) |
| Income before provision for income tax | 828,722,577 | 509,617,898 |
| Income tax (expense) benefit | (152,625,942) | (131,066,524) |
| Net income for the year | 676,096,635 | 378,551,374 |
| Other comprehensive income | 57,588 | 709,248 |
| Total comprehensive income for the year | 676,154,223 | 379,260,622 |
| Non-controlling interest share in total comprehensive income for the year | 202,846,267 | 151,704,249 |

| | KSA | SGCPI |
|---|---|---|
| Cash flows provided by (used in): | | |
| Operating activities | 668,835,236 | 1,244,081,340 |
| Investing activities | (159,662) | (50,698,807) |
| Financing activities | (705,000,000) | (67,096,999) |

The summarized financial information of subsidiaries with significant non-controlling interest as at and for the year ended December 31, 2021 are as follows:

| | KSA | SGCPI |
|---|---|---|
| Total current assets | 217,652,623 | 686,647,703 |
| Total non-current assets | 10,664,093,012 | 8,413,718,132 |
| Total assets | 10,881,745,635 | 9,100,365,835 |
| Total current liabilities | (432,973,791) | (1,812,676,481) |
| Total non-current liabilities | (2,273,227,675) | (1,262,955,255) |
| Total liabilities | (2,706,201,466) | (3,075,631,736) |
| Net assets | 8,175,544,169 | 6,024,734,099 |
| Non-controlling interest share in net assets | 2,449,393,033 | 2,409,893,640 |

| | | |
|---|---|---|
| Revenue | 1,254,214,669 | 802,424,771 |
| Cost and expenses | (92,793,189) | (1,750,387,177) |
| Other expense | (6,995,776) | (74,601,600) |
| Income (loss) before provision for income tax | 1,154,425,704 | (1,022,564,006) |
| Income tax benefit | 192,472,563 | 188,741,049 |
| Net income (loss) for the year | 1,346,898,267 | (833,822,957) |
| Other comprehensive loss | (13,951) | - |
| Total comprehensive income (loss) for the year | 1,346,8844,316 | (833,822,957) |
| Non-controlling interest share in total comprehensive income (loss) for the year | 330,065,155 | (333,529,183) |

| | KSA | SGCPI |
|---|---|---|
| Cash flows provided by (used in): | | |
| Operating activities | 775,714,330 | 516,728,127 |
| Investing activities | - | (84,782,469) |
| Financing activities | (1,321,444,947) | 599,193,050 |

*Investment in and advances to a joint venture*

On March 22, 2018, the Company entered into a Joint Venture Agreement (the "Agreement") with Robinsons Land Corporation (RLC) for the construction and development of a property into 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 the JVC, Shang Robinsons Properties, Inc. (SRPI). SRPI is jointly controlled by the 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 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, and (ii) the marketing and sale of the residential condominium units in the project.

SRPI is the developer of Aurelia Residences, a two-tower high-rise condominium project launched on September 18, 2019 and the developer of Haraya which was soft-launched in November 2022. As at December 31, 2022, the Aurelia Residences Project is 36.83% complete (2021 - 15.6%). In 2022, the Company's share in net income of the joint venture amounted to P1,422,113,933 (2021 - P404,707,422).

In 2019, advances amounting to P1 billion were extended to SRPI by the Company. These advances will mature on April 1, 2023 and bear interest at a rate of 4%, whereas the repayment of the advances may be deferred upon mutual agreement of both parties. 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 P106,192,679 in 2022 (2021 - P73,918,875).

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

| | 2022 | 2021 |
|---|---|---|
| *Summarized statements of financial position* | | |
| Current assets | 12,990,219,768 | 12,542,718,617 |
| Current liabilities | (1,328,335,674) | (4,504,631,214) |
| Non-current assets | 74,098,436 | 269,339,168 |
| Non-current liabilities | (5,528,087,807) | (4,943,113,600) |
| Net assets | 6,207,894,723 | 3,364,312,971 |

| | 2022 | 2021 |
|---|---|---|
| *Summarized statements of comprehensive income* | | |
| Gross revenue | 6,369,968,347 | 2,004,051,580 |
| Net income for the year | 2,844,227,866 | 809,414,844 |
| Other comprehensive income for the year | - | - |
| Total comprehensive income for the year | 2,844,227,866 | 809,414,844 |

*Critical accounting judgment - Recoverability of investment and advances*

The Company's investments and advances 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. The company recognizes an allowance for impairment losses on its investments and advances amounting to P1,533,507,685 as at December 31, 2022 and 2021. No additional allowance for impairment recognized during the reporting period since management believes that the remaining carrying amount of its investments and advances are fully recoverable.

*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 Company has rights to the net assets of SRPI and therefore, the arrangement is classified as a joint venture.

## Note 8 - Investment properties

This account consists of properties that are either held for capital appreciation or for rental purposes or both. The Company'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:

| | Land | Building | Total |
|---|---|---|---|
| January 1, 2021 | 13,217,221,203 | 1,348,459,636 | 14,565,680,839 |
| Capitalized subsequent expenditure | - | 108,227,102 | 108,227,102 |
| Transfer from PPE | - | 12,082,779 | 12,082,779 |
| Other transfers | - | (734,987,171) | (734,987,171) |
| December 31, 2021 | 13,217,221,203 | 733,782,346 | 13,951,003,549 |
| Capitalized subsequent expenditure | - | 21,244,633 | 36,017,081 |
| Other transfers | - | 14,772,448 | - |
| December 31, 2022 | 13,217,221,203 | 769,799,427 | 13,987,020,630 |

The Company's investment properties in 2022 and 2021 consist of parcels of land, carpark building and condominium units. The land and carpark building are being leased out to subsidiaries and third parties.

On September 5, 2019, the Company acquired additional land in Mandaluyong City for a total contract price of P500,500,000, in the same year that the Company started the construction of the land project, which is expected to be completed in 2023.

In 2021, the construction of the land project was subsequently assigned to a related party. As a result, the construction cost of the project incurred as of date was reclassified to Receivables from related parties under Trade and other receivables. Upon completion, the project will be subsequently leased out to third parties and related parties.

As at December 31, 2022 and 2021, 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 Company 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 statements of comprehensive income for investment properties for the years ended December 31 are as follows:

| | 2022 | 2021 |
|---|---|---|
| Rental revenue | 169,789,300 | 68,587,143 |
| Direct operating expenses | (18,947,416) | (14,511,255) |
| Profit arising from investment properties carried at fair value | 150,841,884 | 54,075,888 |

Direct operating expenses include real property taxes and expenses related to carpark operation.

There is no restriction on the Company's title on investment properties. Please refer to Note 13 for restrictions imposed on investment properties of the Company in relation to its long-term loan facility. There are no other restrictions imposed on the Company's property and equipment.

*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:

| | 2022 | | |
|---|---|---|---|
| Fair value of hierarchy | Land | Buildings | Total |
| Level 2 | 7,345,847,303 | 769,799,427 | 8,115,646,730 |
| Level 3 | 5,871,373,900 | - | 5,871,373,900 |
| Total | 13,217,221,203 | 769,799,427 | 13,987,020,630 |
| | 2021 | | |
| Fair value of hierarchy | Land | Buildings | Total |
| Level 2 | 7,345,847,303 | 733,782,346 | 8,079,629,649 |
| Level 3 | 5,871,373,900 | - | 5,871,373,900 |
| Total | 13,217,221,203 | 733,782,346 | 13,951,003,549 |

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

The fair values of the Company'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.

*(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 Company's land property:

| Property | Fair value as at December 31, 2022 and 2021 | Valuation technique | Unobservable inputs | Range of unobservable inputs (probability -weighted average) | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|
| Land where the main wing and east wing of Shangri-La Plaza mall is located | P5,871,373,900 | Direct income capitalization | Rental value | P1,700 per square meter (2021 - P1,700) | The higher the rental value and occupancy rate, the higher the fair value. |
| | | | Occupancy rate | 96% (2021 - 96%) | |
| | | | Expense-revenue ratio | 23% (2021 - 23%) | The higher the expense- revenue ratio and discount rate, the lower the fair value. |
| | | | Discount rate | 12% (2021 - 12%) | |

The fair value of the land property where the Shangri-La Plaza mall is located is calculated using the direct income capitalization approach (Level 3). In applying the direct income capitalization approach, the stabilized net operating income (NOI) 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 P59 million (2021 – P59 million).

*Critical accounting judgments*

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

The Company 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 Company 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 Company, 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 Company.

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

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 Company considers each property separately in making its judgment.

*(b) Classification of leases as operating lease*

The Company (as a lessor) has entered into commercial property leases on its investment property portfolio. The Company 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, 2022 and 2021 are disclosed in the previous table.

## Note 9 - Financial assets at fair value through other comprehensive income, net

Financial assets at fair value through other comprehensive income (FVOCI), net at December 31, consist of:

| | 2022 | 2021 |
|---|---|---|
| Unquoted securities | 78,349,278 | 78,349,278 |
| Quoted securities | 7,551,515 | 7,551,515 |
| Acquisition cost | 85,900,793 | 85,900,793 |
| Cumulative changes in fair value | 116,082,849 | 100,582,849 |
| Fair value | 201,983,642 | 186,483,642 |

Unquoted equity securities include unlisted shares of stock, which are measured at fair value. 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 measured and carried at fair value of underlying assets. The fair value measurements have been categorized as Level 3.

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 statements of financial position.

The movements in the cumulative changes in fair value recognized as other comprehensive income in the statement of financial position for the years ended December 31 are as follows::

| | 2022 | 2021 |
|---|---|---|
| January 1 | 86,616,848 | 88,250,172 |
| Gain (Loss) on fair value adjustment | 15,500,000 | (1,921,558) |
| | 102,116,848 | 86,328,614 |
| Deferred income tax effect | (2,325,000) | 288,234 |
| December 31 | 99,791,848 | 86,616,848 |

## Note 10 - Property and equipment, net

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

| | Building improvements | Leasehold improvements | Transportation equipment | Furniture, fixtures and other equipment | Total |
|---|---|---|---|---|---|
| Cost | | | | | |
| January 1, 2021 | 44,058,929 | 70,990,898 | 42,564,040 | 47,163,011 | 204,776,878 |
| Additions | 78,680 | 1,545,911 | 1,897,857 | 6,659,880 | 10,182,328 |
| December 31, 2021 | 44,137,609 | 72,536,809 | 44,461,897 | 53,822,891 | 214,959,206 |
| Additions | - | 4,246,590 | 4,338,393 | 2,370,793 | 10,955,776 |
| Disposals | - | - | (971,429) | - | (971,429) |
| December 31, 2022 | 44,137,609 | 76,783,399 | 47,828,861 | 56,193,684 | 224,943,553 |
| Accumulated depreciation | | | | | |
| January 1, 2021 | 22,638,594 | 37,620,581 | 32,247,458 | 39,084,135 | 131,590,768 |
| Depreciation | 1,310,355 | 11,753,563 | 4,656,826 | 4,985,120 | 22,705,864 |
| December 31, 2021 | 23,948,949 | 49,374,144 | 36,904,284 | 44,069,255 | 154,296,632 |
| Depreciation | 1,310,354 | 12,263,148 | 3,957,149 | 5,009,678 | 22,540,329 |
| Disposals | - | - | (971,429) | - | (971,429) |
| December 31, 2022 | 25,259,303 | 61,637,292 | 39,890,004 | 49,078,933 | 175,865,532 |
| Net book values at | | | | | |
| December 31, 2021 | 20,188,660 | 23,162,665 | 7,557,613 | 9,753,636 | 60,662,574 |
| December 31, 2022 | 18,878,306 | 15,146,107 | 7,938,857 | 7,114,751 | 49,078,021 |

Please refer to Note 13 for restrictions imposed on property and equipment of the Company in relation to its long-term loan facility.

*Critical accounting estimate - Useful lives of property and equipment*

The useful life of each item of the Company'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 2022 and 2021, there were no changes in the estimated useful lives of property and equipment.

As at December 31, 2022, property and equipment have a carrying value of P49,078,021 (2021 - P60,662,574).

*Critical accounting judgment - Impairment of non-financial assets*

The Company reviews its non-financial assets 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 Company 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 Company has assessed that there are no impairment indicators with respect to the non-financial assets as at December 31, 2022 and 2021.

## Note 11 - Other non-current assets

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

| | 2022 | 2021 |
|---|---|---|
| Deposit to contractors | - | 21,478,884 |
| Refundable deposits | 847,541 | 847,541 |
| | 847,541 | 22,326,425 |

*Deposit to contractors*

Deposit to contractors as at December 31, 2021 pertained to cash paid by the Company for the construction of SPI tower. In 2022, the deposit was fully applied against related billings from contractors.

*Refundable deposits*

Refundable deposits are cash paid by the Company as deposits to utility companies which are expected to be returned after a specified period, or when certain conditions are satisfied.

## Note 12 - Accounts payable and other current liabilities

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

| | Notes | 2022 | 2021 |
|---|---|---|---|
| Financial liabilities | | | |
| Accounts payable | | 25,942,669 | 17,946,665 |
| Accrued expenses | | 53,088,289 | 33,751,741 |
| Payable to contractors and suppliers | | 350,000 | 350,000 |
| Accrued interest | 13 | - | 10,496,396 |
| Payable to related parties | 20 | 2,690,101,630 | 2,221,583,742 |
| Others | | 18,332,039 | 7,277,266 |
| Non-financial liabilities | | | |
| Retention payables to contractors | | 10,335,807 | 11,907,929 |
| Payable to regulatory agencies | | 9,536,847 | 8,205,738 |
| Unearned rental income | | - | 6,600,000 |
| Output value added tax (VAT) | | 2,093,127 | 2,828,594 |
| | | 2,809,780,408 | 2,320,948,071 |

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.

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.

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

Accrued expenses consist of accruals for advertising and promotions, insurance, other employee benefit related cost and other general and administrative expenses. Others pertain mainly to taxes, insurance and statutory contributions payable to Social Security System ("SSS"), Home Development Mutual Fund ("HDMF") and Philippine Health Insurance Corporation ("Philhealth").

## Note 13 - Bank loans

Bank loans as at December 31 consist of:

| | 2022 | 2021 |
|---|---|---|
| Long term loan facility (all current) | - | 400,000,000 |
| Short term loans | 6,940,000,000 | 4,990,000,000 |
| | 6,940,000,000 | 5,390,000,000 |

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

| | 2022 | 2021 |
|---|---|---|
| January 1 | 5,390,000,000 | 4,233,333,334 |
| Additions | 3,460,000,000 | 2,590,000,000 |
| Payments | (1,910,000,000) | (1,433,333,334) |
| December 31 | 6,940,000,000 | 5,390,000,000 |

*Long term loan facility*

On July 30, 2012, the 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. 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 was fully settled in 2022.

The loan agreement requires the 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 Company is fully compliant with the loan covenants.

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

*Short term loans*

Short term loans are composed of unsecured loans from various banks with interest rates ranging from 4% to 6% in 2022 (2021 - 2.5% to 4.5%). These loans have payment terms of 3 to 12 months in 2022 (2021 - 3 to 12 months).

Interest expense charged to profit or loss amounted to P3,195,395 in 2022 (2021 - P16,250,114) as shown in the statements of comprehensive income.

## Note 14 - Equity

*(a) Share capital, share premium and treasury shares*

Details of share capital and share premium at December 31, 2022 and 2021 are as follows:

| | Shares | Amount |
|---|---|---|
| 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 | | 1,210,073,869 |
| | | 5,974,132,851 |

In 2007, the 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 statements of financial position.

*(b) Retained earnings*

As at December 31, 2022, total unrestricted retained earnings amounted to P21,795,497,000 (2021 - P19,859,180,162). The Company's unrestricted retained earnings exceeded its share capital by P15,821,364,149 (2021 - P13,885,047,311). The excess retained earnings include accumulated fair value gain of P9,868,058,867 (2021 - P9,868,058,867) which are not considered available for dividend declaration. The management of the Company plans to use the excess retained earnings to support the Company's working capital requirements, planned business growth and expansion strategies. Further the Company annually declares dividends in compliance with SEC Memorandum Circular No. 11, Series of 2008.

The Company's Board of Directors approved the declaration of the following cash dividends for the years ended December 31 as follows:

| Date of declaration | Shareholders of record as at | Payment date | Total | Per share |
|---|---|---|---|---|
| 2023 (subsequent event) | | | | |
| March 22, 2023 | April 11, 2023 | April 21, 2023 | 738,097,342 | 0.155 |
| 2022 | | | | |
| March 24, 2022 | April 8, 2022 | April 20, 2022 | 333,234,605 | 0.070 |
| August 31, 2022 | September 15, 2022 | September 27, 2022 | 452,382,163 | 0.095 |
| | | | 785,616,768 | |
| 2021 | | | | |
| September 7, 2021 | September 24, 2021 | September 30, 2021 | 209,524,407 | 0.044 |
| March 25, 2021 | April 9, 2021 | April 16, 2021 | 380,953,467 | 0.080 |
| | | | 590,477,874 | |

*(c) Earnings per share*

Basic and diluted earnings per share, which are the same due to absence of dilutive potential common shares, for the years ended December 31 are as follows:

| | 2022 | 2021 |
|---|---|---|
| Net income for the year | 2,721,933,606 | 2,401,230,715 |
| Weighted average number of shares outstanding | 4,764,058,982 | 4,764,058,982 |
| Earnings per share | 0.57 | 0.50 |

*Capital management*

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. There were no changes in the Company's strategies and policies during 2022 and 2021.

The Company monitors capital using a gearing ratio, which is net debt, computed as loans less cash and cash equivalents, divided by capital. Capital pertains to total equity. The gearing ratio as at December 31 is presented below:

| | 2022 | 2021 |
|---|---|---|
| Net debt | | |
| Bank loans | 6,940,000,000 | 5,390,000,000 |
| Less: Cash and cash equivalents | 292,140,463 | 184,664,709 |
| | 6,647,859,537 | 5,205,335,291 |
| Total equity | 27,848,329,787 | 25,898,295,619 |
| Gearing ratio | 23.87% | 20.10% |

The Company was able to meet its capital management objectives.

The Company is not subject to any externally imposed capital requirements.

**Note 15 - Staff costs**

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

| | Note | 2022 | 2021 |
|---|---|---|---|
| Salaries and wages | | 221,607,259 | 221,009,703 |
| Retirement benefit expense | 18 | 14,001,682 | 18,068,605 |
| Employee benefits | | 15,383,850 | 17,653,530 |
| Others | | 5,039,640 | 4,700,237 |
| | | 256,032,431 | 261,432,075 |

## Note 16 - Other operating expenses

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

| | Note | 2022 | 2021 |
|---|---|---|---|
| Professional fees | | 38,962,145 | 36,280,700 |
| Repairs and maintenance | | 7,313,793 | 5,109,769 |
| Utilities | | 6,451,515 | 3,300,241 |
| Janitorial, security and other services | | 4,944,316 | 4,135,032 |
| Rent | 22 | 4,726,944 | 4,726,944 |
| Telephone and communication | | 2,715,564 | 3,602,877 |
| Transportation and travel | | 2,348,096 | 969,187 |
| Supplies | | 1,820,529 | 1,780,888 |
| Membership fees and dues | | 1,782,940 | 1,658,927 |
| Insurance | | 833,482 | 1,102,690 |
| Entertainment, amusement and recreation | | 829,646 | 730,225 |
| Condominium dues | | 800,588 | 1,261,079 |
| Reproduction charges | | 502,698 | 408,216 |
| Provision for doubtful accounts | | 156,757 | - |
| Others | | 39,065,422 | 17,791,579 |
| | | 113,254,435 | 82,858,354 |

Others primarily include advertising expenses amounting to P28,761,257 (2021 – 10,022,910).

## Note 17 – Miscellaneous income

The components of this account for the years ended December 31 are as follows:

| | Notes | 2022 | 2021 |
|---|---|---|---|
| Management fees | 20 | - | 96,667,296 |
| Gain on sale of property and equipment | | 374,086 | 1,000,500 |
| Foreign exchange gain, net | 2 | 4,672,629 | 816,538 |
| Bank charges | | (684,365) | (311,739) |
| Gain (loss) on fair value adjustments of financial assets at FVTPL | 3 | 348,769 | (683,271) |
| Others | | - | (163,358) |
| | | 4,711,119 | 97,325,966 |

## Note 18 - Retirement benefit liability

The Company has a funded, noncontributory defined benefit plan, providing death, disability and retirement benefits for all of its regular employees. Under the plan, the normal retirement age is 60 years old and completion of at least five 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 2020 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 Philippines Peso Bloomberg Valuation (PHP BVAL) at various tenors as at December 31, 2022. 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 Company 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 Company. However, the Company 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 Company'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.

Management performs an Asset-Liability Matching Study (ALM) annually. The overall investment policy and strategy of the Company's defined benefit plan 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 plan. The Company's current strategic investment strategy consists of 45.76% treasury investments, 14.52% corporate investments, 22.98% equity securities, 16.70% money market deposits and trust funds and 0.04% cash.

The Company actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Company has changed its fund management in 2019 and has changed the processes used to manage its risks from previous periods. The Company 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 Company's plan assets consist of investment in debt and equity instruments, money market deposits and trust funds, and cash in banks. The Company believes that equities offer the best returns over the long term with an acceptable level of risk.

The actuarial valuation of the Company's retirement plan was performed by an independent actuary. The latest actuarial valuation report prepared was for the year ended December 31, 2022. The principal assumptions used by the actuary for the years ended December 31 are as follows:

| | 2022 | 2021 |
|---|---|---|
| Discount rate | 7.10% | 4.89% |
| Salary increase rate | 5.00% | 3.50% |

The amounts of retirement benefit liability recognized in the statements of financial position are determined as follows:

| | 2022 | 2021 |
|---|---|---|
| Present value of defined benefit obligation | 107,020,907 | 94,138,228 |
| Fair value of plan assets | (86,927,312) | (89,982,678) |
| Retirement benefit liability | 20,093,595 | 4,155,550 |

The components of retirement expense for the years ended December 31 recognized in the statements of comprehensive income are as follows:

| | Note | 2022 | 2021 |
|---|---|---|---|
| Current service cost | | 14,284,865 | 17,875,410 |
| Net interest cost | | (283,183) | 193,195 |
| Retirement benefit expense | 15 | 14,001,682 | 18,068,605 |

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

| | 2022 | 2021 |
|---|---|---|
| January 1 | 94,138,228 | 108,616,947 |
| Interest expense | 3,883,160 | 3,206,539 |
| Current service cost | 14,284,865 | 17,875,410 |
| Benefits paid by the Company from operating funds | - | - |
| Benefits paid by the Company from retirement funds | (2,646,134) | (6,593,451) |
| Remeasurements arising from: | | |
| Experience adjustments | (2,409,600) | (24,069,886) |
| Changes in financial assumptions | (2,708,304) | (5,380,058) |
| Net acquired obligation due to employee transfers | 2,478,692 | 482,727 |
| December 31 | 107,020,907 | 94,138,228 |

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

| | 2022 | 2021 |
|---|---|---|
| January 1 | 89,982,678 | 95,300,363 |
| Interest income | 4,166,343 | 3,013,344 |
| Return on plan assets | (4,575,575) | (1,737,577) |
| Benefits paid from plan assets | (2,646,134) | (6,593,452) |
| December 31 | 86,927,312 | 89,982,678 |

Apart from the benefit payments to certain qualified employees advanced by the Company and the contributions to the plan for the years ended December 31, 2022 and 2021, the Company had no other transactions with the plan.

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

| | 2022 | 2021 |
|---|---|---|
| Cash in banks | 19,147 | 71,694 |
| Investments in debt instruments: | 86,942,940 | 89,910,984 |
| Liabilities | (34,775) | - |
| | 86,927,312 | 89,982,678 |

At December 31, 2022 and 2021, the Company's plan assets (investment in equity and 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, 2022 and 2021.

The company expects to contribute P18,295,647 to the retirement fund in 2023.

The weighted average duration of the defined benefit obligation is 7.76 years (2021 - 10.09 years).

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

| | 2022 | 2021 |
|---|---|---|
| Less than a year | 40,823,845 | 29,455,986 |
| Between 1 and 5 years | 31,264,099 | 36,502,728 |
| Between 5 and 10 years | 121,609,723 | 75,875,064 |
| Over 10 years | 208,526,402 | 155,373,220 |
| | 402,224,069 | 297,206,998 |

*Critical accounting estimate - Determining retirement benefit obligation*

The Company maintains a qualified defined benefit retirement plan. The calculations of retirement costs of the Company 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 Company believes that the assumptions used are reasonable, differences in actual experience or changes in assumptions may materially affect the Company's retirement obligation and future expense.

In determining the long-term rates of return, the Company considers the nature of the plans' investments, an expectation for the plans' investment strategies, historical rates of return and current economic forecasts. The Company 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) | |
|---|---|---|
| | 2022 | 2021 |
| Discount rate | | |
| Increase by 1.0% | (102,256,786) | (89,491,930) |
| Decrease by 1.0% | 112,337,263 | 99,336,829 |
| Salary increase rate | | |
| Increase by 1.0% | 112,979,293 | 99,900,093 |
| Decrease by 1.0% | (101,591,004) | (88,897,720) |

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 recognized within the statements of financial position. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to prior years.

**Note 19 - Income taxes**

*Corporate Recovery and Tax Incentives for Enterprises Act*

On March 26, 2021, Republic Act (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 a reduction of the Corporate Income Tax (CIT) rate to 25% beginning July 1, 2020 as applicable to the Company. 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 expense (benefit) for the years ended December 31 follows:

| | 2022 | 2021 |
|---|---|---|
| Current | 2,659,600 | 1,497,427 |
| Deferred | - | (558,464,216) |
| | 2,659,600 | (556,966,789) |

Deferred income tax liabilities that are recognized as at December 31 consist of:

| | 2022 | 2021 |
|---|---|---|
| Deferred income tax liabilities: | | |
| Unrealized gain on cumulative fair value adjustments of | | |
| Investment properties | 3,350,879,319 | 3,350,879,319 |
| Interest income from advances to related parties | 34,174,163 | 34,174,163 |
| Financial assets at FVOCI | 17,412,427 | 15,087,427 |
| Unrealized foreign exchange gain | 34,989 | 34,988 |
| Net deferred income tax liabilities | 3,402,500,898 | 3,400,175,897 |

Realization of the future tax benefits related to the deferred income tax assets is dependent on many factors, including the Company's ability to generate taxable income in the future. The unrecognized deferred income tax assets as at December 31 consist of:

| | 2022 | 2021 |
|---|---|---|
| MCIT | 6,296,728 | 10,776,586 |
| NOLCO | 173,462,795 | 207,398,359 |
| Unamortized past service cost | 7,111,504 | 7,111,504 |
| Accrued expenses | 12,889,166 | 8,063,038 |
| Retirement benefit liability | 903,305 | 1,038,888 |
| Unrecognized deferred tax assets | 200,663,498 | 234,388,375 |

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

| | 2022 | 2021 |
|---|---|---|
| January 1 | 3,400,175,897 | 3,946,149,360 |
| Credited to profit or loss | - | (558,464,216) |
| Charged to other comprehensive income | 2,325,000 | 12,490,753 |
| December 31 | 3,402,500,897 | 3,400,175,897 |

The Company is entitled to the net operating loss carry-over (NOLCO) benefit which can be applied to its taxable income for five succeeding years from the year the loss was incurred for the 2021 and 2022 NOLCO and three succeeding years from the year the loss was incurred for NOLCO prior to 2021. The details of deferred income tax assets on NOLCO at December 31 are as follows:

| | Year of expiry | 2022 | 2021 |
|---|---|---|---|
| 2018 | 2021 | - | 157,555,295 |
| 2019 | 2022 | 256,205,528 | 256,205,528 |
| 2020 | 2025 | 321,209,689 | 321,209,689 |
| 2021 | 2026 | 252,178,217 | 252,178,217 |
| 2022 | 2025 | 120,463,274 | - |
| | | 950,056,708 | 987,148,729 |
| Expired | | (256,205,528) | (157,555,295) |
| Total | | 693,851,180 | 829,593,434 |
| Unrecognized DTA at 25% (2021 - 25%) | | 173,462,795 | 207,398,359 |

The Company is required to pay the MCIT or the normal income tax, whichever is higher. MCIT is 1% of gross income for the period beginning July 1, 2020 until June 30, 2023 and 2% of gross income prior to July 1, 2020 as defined under the Tax Code. Any excess of MCIT over the normal income tax shall be carried forward annually and applied against the normal income tax for the next succeeding three taxable years applicable.

| Year incurred | Year of expiry | 2022 | 2021 |
|---|---|---|---|
| 2019 | 2022 | - | 7,139,458 |
| 2020 | 2023 | 2,139,701 | 2,139,701 |
| 2021 | 2024 | 1,497,427 | 1,497,427 |
| 2022 | 2025 | 2,659,600 | - |
| | | 6,296,728 | 10,776,586 |

A reconciliation of the income tax expense computed at the statutory income tax rate and the effective income tax (benefit) expense recognized in profit or loss for the years ended December 31 is as follows:

| | 2022 | 2021 |
|---|---|---|
| Tax at statutory rate of 25% (2021 - 25%) | 681,148,299 | 461,065,961 |
| Adjustments resulting from: | | |
| Unrecognized deferred tax assets | 37,601,547 | 160,381,791 |
| Other non-deductible expenses | 75,750 | 1,591,710 |
| Loss on fair value adjustment of financial assets at FVTPL | - | 170,818 |
| Depreciation of investment property | 1,022,061 | - |
| Derecognition of fair value of equity investments at FVOCI | 87,191 | 40,840 |
| Interest income subjected to final tax | (303,000) | (63,203) |
| Share in net income from joint venture | (355,528,483) | (101,176,855) |
| Dividend income | (362,995,500) | (407,594,677) |
| CREATE impact | 1,551,735 | (671,383,174) |
| Effective income tax expense (benefit) | 2,659,600 | (556,966,789) |

*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 Company 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 Company 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.

## Note 20 - Related party transactions

In the normal course of business, the Company transacts with related parties. The following are the significant transactions and outstanding balances with related parties as at and for the years ended December 31:

| | 2022 | | 2021 | | |
|---|---|---|---|---|---|
| | Transactions | Outstanding receivables (payables) | Transactions | Outstanding receivables (payables) | Terms and conditions |
| **Subsidiaries** | | | | | |
| Rental income (a) | 95,974,283 | 20,273,302 | 51,723,813 | 55,110,100 | Balances to be collected in cash and are due generally within 60 days. These are non-interest bearing and are not covered by any security. |
| Management fees (b) | - | - | 39,122,484 | 90,695,373 | 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. |
| Administrative recharges by the Company | 578,449,526 | 4,496,630,879 | 1,696,320,714 | 2,867,411,809 | |
| Dividend income | 1,451,982,000 | 18,200,000 | 1,612,443,901 | 18,200,000 | |
| Advances | 1,268,416,000 | 1,268,416,000 | (100,000,000) | (1,820,000,000) | 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. |
| Administrative recharges to the Company | (21,994,163) | (500,130,329) | (76,085,616) | (386,212,689) | |
| Rental expense (d) | (4,726,944) | (4,726,944) | (4,726,944) | (5,943,338) | |
| **Entities under common control** | | | | | |
| Rental income (a) | 68,138,284 | 20,966,258 | 20,679,163 | 15,194,664 | Balances to be collected in cash and are due generally within 60 days. These are non-interest bearing and are not covered by any security. |
| Dividend income | - | - | 17,934,889 | 16,940,000 | Balances to be collected in cash and are due generally within 30 days from date of declaration. These are non-interest bearing and are not covered by any security. |
| Advances (c) | 11,823,297 | 3,194,894,730 | 25,223,963 | 2,011,487,517 | Balances are to be collected in cash and are generally due within 30 days. These balances are non-interest bearing and not covered by any guarantee. |
| Management fees (b) | - | - | 40,988,419 | 5,624,291 | |
| Administrative recharges by the Company | 171,766,645 | 974,759,616 | 794,318,895 | 959,402,490 | |
| Administrative recharges to the Company | - | - | 8,915,092 | (9,427,716) | 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) | 800,588 | - | 1,261,079 | - | |
| **Retirement fund** | | | | | |
| Contributions | - | - | - | - | Refer to Note 18. |
| **Key management personnel** | | | | | |
| Salaries and other short-term employee benefits | - | 91,953,208 | - | 78,006,285 | Salaries and wages are settled in cash at the period incurred. Other short-term benefits are payable within the current year. There were no stock options or other long-term benefits provided in 2022 and 2021 nor amounts due to/from key management personnel as at December 31, 2022 and 2021. |
| Post-employment benefits | - | 5,341,354 | - | 7,094,820 | Refer to Note 18. |

Significant agreements with related parties are as follows:

a) The company has various rental agreements with SPLC, SPSI and ESHRI, with terms ranging from 1 to 25 years. Rental income is calculated based on a fixed percentage of the counterparties' revenue.

b) The Company has management service agreement with its subsidiaries wherein the former shall provide human resource administration services for shared employees and project costs. The subsidiaries shall pay the Company management fees at actual cost-plus taxes (Note 17).

c) The outstanding balance as at December 31, 2022 and 2021 amounting to P1,144,187,554 represents cash advances made by Classic Elite Holdings Limited from the Company for working capital and project development.

d) The Company leases its office space from SLPC for a period of three (3) years that ended on May 17, 2019 and was extended for another three (3) years that will end on May 16, 2022. The Company agrees to pay SLPC for a fixed monthly rental amounting to P472.77 per square meter with an annual escalation of 5%.

e) The Company pays dues to The St. Francis Shangri-La Place Condominium Corporation for real property tax, association dues and condominium dues for condominium units owned by the Company in The St. Francis Shangri-La Place.

There were no write-offs or provisions made in relation to related party transactions and balances as at and for the years ended December 31, 2022 and 2021.

## Note 21 - Provisions and contingencies

In 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 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 underwent arbitration which resulted in promulgation in 2007 of the Arbitral Tribunal to award to the principal contractor the sum of P38,518,503, net of the award to Company amounting to P8,387,484. Subsequently, this decision was appealed by both parties to the Court of Appeals (CA) who resolved in 2009 to award P24,497,556 to the principal contractor, unpaid progress billings based on the original scope of work, and denied the Company of its motion for partial reconsideration. In 2009, both the Company and the Principal Contractor filed a Petition for Review in Certiorari to the Supreme Court, where the Company prayed for a reversal of the decision of the CA and for payment of liquidated damages by the Principal Contractor while the Principal Contractor filed a motion to modify the decision of the CA and to be awarded the full amount of their claim.

On July 26, 2021, the parties filed a Joint Manifestation and Motion informing the Supreme Court about the amicable settlement of the case and jointly moved for its dismissal which the Supreme Court granted in December 2021 and deemed the case closed and terminated.

*Critical accounting estimate – Provision*

As at December 31, 2022 and 2021, the Company recognized provision for a certain legal case. The estimate of the probable costs for the resolution has been developed in consultation with outside legal counsel handling the Company'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 Company has other pending legal cases which are being contested by the Company and their legal counsels. The estimates of the probable costs for the resolution of the above 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 Company's financial position and performance.

## Note 22 - Lease commitments

*(a) Company as a lessor*

The Company entered into operating lease agreements with related parties covering the freehold land, a building and its improvements. The Company also leases certain commercial areas at The St. Francis Shangri-La Place to third parties. The lease agreements, where the Company is the lessor, provide for a fixed monthly rental or a certain percentage of gross revenue.

Rental revenues for the years ended December 31 are as follows:

| | Note | 2022 | 2021 |
|---|---|---|---|
| Percentage basis | 20 | 164,112,567 | 63,106,002 |
| Fixed monthly rental | | 5,676,733 | 5,481,141 |
| | | 169,789,300 | 68,587,143 |

Total future minimum lease collections under the non-cancellable operating lease with fixed monthly rental as at December 31 are:

| | 2022 | 2021 |
|---|---|---|
| Within one (1) year | 4,012,878 | 3,836,545 |
| One to two (1 to 2) years | - | 5,677,428 |
| | 4,012,878 | 9,513,973 |

*Critical accounting judgment - Operating lease commitments - Company as lessor*

The Company owns parcels of land and a carpark building located in Mandaluyong City which are leased out to its subsidiaries, an affiliate, and third parties. The Company 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.

*(b) Company as a lessee*

The Company leases its office space from SLPC and incurred rent expense amounting to P4,726,944 in 2022 (2021 - P4,726,944) (Note 20).

## Note 23 - Net debt reconciliation

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

| | Notes | 2022 | 2021 |
|---|---|---|---|
| Bank loans, January 1 | 13 | 5,390,000,000 | 4,233,333,334 |
| Additions | | 3,460,000,000 | 2,590,000,000 |
| Payments | | (1,910,000,000) | (1,433,333,334) |
| Bank loans, December 31 | 13 | 6,940,000,000 | 5,390,000,000 |
| Accrued interest | 12 | - | 10,496,396 |
| Cash and cash equivalents | 2 | (292,140,463) | (184,664,709) |
| Net debt | | 6,647,859,537 | 5,215,831,687 |

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

## Note 24 - Financial risk management

The Company'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 Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. Risk management is carried out by the Company'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 Company's risk management plans for the years ended December 31, 2022 and 2021.

24.1.1 Market risk

*(a) Foreign exchange risk*

The Company'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 asset is not expected to have a significant impact on the financial position or results of operations of the Company.

The Company's foreign currency denominated cash in banks and cash equivalents as at December 31, 2022 and 2021 and net foreign exchange gains/losses for the years ended December 31, 2022 and 2021 are disclosed in Note 2.

*(b) Price risk*

The Company's exposure to price risk is minimal and limited only to financial assets at fair value through profit or loss (Note 3) and FVOCI (Note 9) presented in the statement 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 Company.

*(c) Cash flow and fair value interest risk*

Interest rate risk refers to risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Company's interest-bearing financial instruments include long-term loan (Note 13). These financial instruments are not exposed to fair value interest rate risk as these are carried at amortized cost. Likewise, these instruments are not exposed to variability in cash flows as these carry fixed interest rate, to be repriced every 30 to 180 days as agreed by the parties. The Company's exposure to cash flow interest risk is considered insignificant to the financial statements.

### 24.1.2 Credit risk

Credit risk arises from cash and cash equivalents, trade receivables and other financial assets at amortized cost. The Company manages the credit risk arising from these financial assets as follows:

*(a) Cash and cash equivalents (Note 2)*

The Company only maintains banking relationships with top and reputable universal and commercial banks in the country. Universal and commercial banks represent the largest single group, resource-wise, of financial institutions in the Philippines.

While cash and cash equivalents are also subject to the impairment requirements of PFRS 9, the impairment loss has been assessed to be immaterial.

*(b) Trade and other receivables, net (Note 4)*

The Company's rental income is concentrated mainly to its related parties and is subject to normal credit terms. Credit risk is minimized since the related parties are paying on normal credit terms and no history of default. The Company also enter into lease agreements with recognized and creditworthy third parties. It is the policy of the Company that all customers who trade on credit terms are subjected to credit verification procedures and are required to put up security deposits and pay advance rentals, if necessary. The Company does not offer credit terms to third parties without the specific approval of management. In addition, receivable balances are monitored on an on-going basis with the result that the exposure of the Company to bad debts is not significant.

The Company applies the PFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

All of the Company's trade receivables had been assessed to be fully performing as of reporting date. Management has determined based on its historical loss experience that the expected credit loss on these fully performing trade receivables is not material for financial reporting purposes.

*Allowance for impairment*

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables presented above. There were no trade and other receivables pledged as collaterals as at December 31, 2022 and 2021.

*(c) Other financial assets at amortized cost*

The Company's maximum credit risk exposures arising from other financial assets at amortized costs are shown below:

| | Notes | 2022 | 2021 |
|---|---|---|---|
| Receivables from related parties | 4 | 10,665,413,871 | 8,171,813,082 |
| Advances to officers and employees | 4 | 142,147 | 1,165,614 |
| Interest receivable | 4 | 235,294 | 43,083 |
| Others | 4 | 890,148 | 30,124,737 |
| Refundable deposits | 11 | 847,541 | 847,541 |
| Total | | 10,667,529,001 | 8,203,994,057 |
| Allowance for impairment of other receivables | 4 | (156,757) | - |
| | | 10,667,372,244 | 8,203,994,057 |

*Critical accounting estimate - Impairment of other financial assets at amortized cost*

The loss allowance for financial assets is based on assumptions about risk of default and expected loss rates.

Substantially all other financial assets at amortized cost as disclosed above are performing. Performing accounts are those whose credit risk is in line with original expectations of the Company. The 12-month ECL has been used as a basis for provisioning. The management has assessed that the related ECL has been deemed insignificant for financial reporting purposes.

24.1.3 Liquidity risk

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

The table below analyzes the Company'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 Company's financial instruments as at December 31 based on its contractual maturity profile:

| | 2022 | 2021 |
|---|---|---|
| **Financial liabilities maturing within one year** | | |
| Accounts payable and other current liabilities | 2,787,814,627 | 2,291,405,810 |
| Bank loans, including future interest | 6,940,000,000 | 5,459,082,732 |
| Dividends payable | 61,167,401 | 61,896,969 |
| | 9,788,982,028 | 7,812,385,511 |
| **Financial liabilities maturing beyond one year** | | |
| Deposits from tenants | 1,269,161 | 1,269,161 |
| | 9,790,251,189 | 7,813,654,672 |

## Note 25 - Summary of significant accounting policies

The principal accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 25.1 Basis of preparation

The separate financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippines 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 separate financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at FVTPL, FVOCI and investment properties.

The preparation of separate 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 Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

- Determination of fair values of investment properties (Note 8)
- Useful lives of property and equipment (Note 10)
- Determining retirement benefit obligation (Note 18)
- Assessing control over subsidiaries (Note 7)
- Recoverability of investment and advances (Note 7)
- Distinction between properties held for sale, investment properties, and property and equipment (Note 8)
- Impairment of non-financial assets (Note 10)
- Provision (Note 21)
- Contingencies (Note 21)
- Operating lease commitments - Company as lessor (Note 22)
- Income tax (Note 19)

The Company has also prepared consolidated financial statements in accordance with PFRS for the Parent company and its Subsidiaries (the "Group"). In the consolidated financial statements, subsidiary undertakings - which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations - have been fully consolidated.
Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the years ended December 31, 2022 and 2021 in order to obtain full information on the financial position, results of operations and changes in financial position of the Company as a whole. The consolidated financial statements of the Group can be obtained from SEC or from the Parent's website: www.shangproperties.com.

**Changes in accounting policies and disclosures**

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

The Company has adopted certain amendments for the first-time effective January 1, 2022:

- Amendments to PFRS 3, Reference to the Conceptual Framework.
- Amendments to PAS 16, Property, Plant and Equipment: Proceeds before Intended Use.
- Amendments to PAS 37, Onerous Contracts - Costs of Fulfilling a Contract.
- Annual Improvements to PFRSs 2018-2020 Cycle
    - Amendments to PFRS 1, First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter
    - Amendments to PFRS 9, Financial Instruments

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) New standards, amendments and interpretations not yet adopted

The following amendments to existing standards have been published but are not mandatory for December 31, 2022 reporting periods and have not been early adopted by the Group.

Amendments to PAS 1, Presentation of Financial Statements and PFRS Practice Statement 2, Making Materiality Judgements - Disclosure of Accounting Policies (effective January 1, 2023)

This amendment requires 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. The amendments further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information. To support this amendment, PFRS Practice Statement 2 Making Materiality Judgements was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures. The Company expects to have reduced disclosures of accounting policies upon the adoption of this amendment.

Other new standards, amendments to existing standards and interpretations effective after December 31, 2022 are not expected to have a material impact on the Company's financial statements in the future reporting periods and on foreseeable future transactions.

## 25.2 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.

## 25.3 Financial instruments

*Financial assets*

(a) Classification

The Company 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 Company'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 Company has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI. The Company reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at 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.

(c) Subsequent measurement

*(i) Debt instruments*

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

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

  The Company's financial assets at amortized cost consist of cash and cash equivalents (Note 2), trade and other receivables (Note 4) and refundable deposits classified under other non-current assets (Note 11) in the separate statement of financial position.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other income (expense). 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 miscellaneous under other income (expense), and impairment expenses are presented in operating expenses in the separate statement of comprehensive income.

  The Company does not have debt instruments at FVOCI as at December 31, 2022 and 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 (expense), in the period in which it arises.
  The Company does not have debt instruments at FVTPL as at December 31, 2022 and 2021.

*(ii) Equity instruments*

The Company subsequently measures all equity investments at fair value through profit or loss, except where the Company's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Company'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 Company's right to receive payments is established.

At December 31, 2022 and 2021, the Company'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 classified in the separate statement of financial position (Note 9).

(d) Impairment

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

The expected loss rates are based on the payment profiles of counterparties over a period of 36 months before January 1, 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company 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 expense in the separate statement of comprehensive income. Subsequent recoveries are credited to miscellaneous income.

Financial liabilities

(a) Classification and measurement

Financial liabilities are classified in the following categories: financial liabilities at fair value at FVTPL (including financial liabilities held for trading and those that designated at fair value); and financial liabilities at amortized cost.

Financial liabilities that are not classified at FVTPL fall into this category and are measured at amortized cost.

The Company's bank loans (Note 13) and accounts payable and other current liabilities (excluding payable to government agencies and output value added tax) (Note 12) are classified under financial liabilities at amortized cost.

(b) Initial recognition

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

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

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

Derecognition of financial instrument

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company 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.

Offsetting of financial instrument

Financial assets and liabilities are off-set, and the net amount reported in the 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 Company or the counterparty. There are no offsetting arrangements as at December 31, 2022 and 2021.

### 25.4 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 Company applies the 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 statement of comprehensive income. When a receivable remains uncollectible after the Company 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 statement of comprehensive income.

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

Refer to Note 25.3 for other relevant accounting policies on trade and other receivables.

### 25.5 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 represent 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.

Properties held for sale are derecognized when they are sold or there are no future benefits to the Company. 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.

### 25.6 Prepayments and other assets

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.

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. The Company's creditable withholding taxes are part of the prepaid taxes under prepaid expenses and other current assets in the balance sheet. Creditable withholding taxes are derecognized when utilized or applied against income tax due.

Other current assets include assets that are realized as part of the normal operating cycle and are expected to be realized within twelve 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 Company 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.

### 25.7 Investments and advances

*(a) Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company 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 Company. They are deconsolidated from the date that control ceases.

Investment in a subsidiary in the separate financial statements are accounted for using the cost method in accordance with PAS 27 (Amended), *Separate Financial Statements*. Under this method, income from investment is recognized in profit or loss only to the extent that the investor receives distributions from accumulated profits of the investee arising after the acquisition date. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as reduction of the cost of the investment.

The Company recognizes dividend income from investments in profit or loss when its right to receive dividends has been established.

When the Company ceases to have control, any retained interest in the entity is remeasured 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, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Company 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.

*(b) Associates*

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in associate is initially recognized at cost. It is subsequently carried in the separate financial statements at cost, less allowance for impairment losses.

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

Under the equity method of accounting, the interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Company'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.

Investment in associates and joint ventures 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.

Impairment of investment is presented in Note 25.10.

*(c) Joint ventures*

Under PFRS 11, *Joint Arrangements*, investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Company has an investment in joint ventures as at reporting date (Note 7).

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

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

Where the Company'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 investor 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 Company 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 Company.

*(d) Deposits for future share subscriptions*

Deposits for future share subscriptions represents amounts paid to subsidiaries which will be settled by way of issuance of the subsidiaries' shares at a future date. These are recognized upon receipt of cash and measured at face value or nominal amount.

Deposit for future share subscription is derecognized once share has been issued.

Refer to Note 25.3 for relevant accounting policies on advances to subsidiaries and associate.

## 25.8 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 Company's investment properties are held for capital appreciation and is not occupied by the Company. The Company has adopted the fair value model for its investment property (Note 8).

After initial recognition, investment properties are 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 Company 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 Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the profit or loss during the financial period in which they are incurred.

Changes in fair values are of recognized in the statement of comprehensive income within gain/loss on fair value adjustment of investment properties.

An investment property is derecognized from the 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 25.9), 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 presented in Note 25.10.

### 25.9 Property and equipment

Property and equipment 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 Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income within other general and administrative expenses during the financial period in which they are incurred.

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 25.10).

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 statement of 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 statement of comprehensive income.

### 25.10 Impairment of non-financial assets

Asset that has an indefinite useful life such as investment in subsidiaries and associates not subject to amortization is evaluated regularly for impairment. Assets that have definite useful lives and are subject to amortization 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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that are previously impaired are reviewed for possible reversal of the impairment at each reporting date. Subsequent reversals are credited to miscellaneous income in the statement of comprehensive income.

The Company determines at each reporting date whether there is any objective evidence that the investment in subsidiaries and associate is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the recoverable amount of the subsidiaries and associate and its carrying value and recognizes the amount in profit or loss. An allowance is set-up for any substantial and presumably permanent decline in value of investments.

### 25.11 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 other current liabilities 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 are presented in Note 25.3.

### 25.12 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 in profit or loss as other income.

Borrowings are classified as current liabilities unless the Company 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.

### 25.13 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 Company 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 Company 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 Company's unlisted financial assets at FVOCI financial assets are included in Level 3.

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

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

Specific valuation techniques used to value financial instruments include:

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

The investment properties of the Company are classified under Level 2 and 3 categories.

### 25.14 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 Company 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.

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 separate 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, NOLCO) and unused tax credits (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 Company 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, associates and joint arrangements 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, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Company is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Company the ability to control the reversal of the temporary difference 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 Company reassesses at each reporting the need to recognize previously unrecognized deferred income tax asset.

### 25.15 Provisions

Provisions are recognized when: the Company 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 statement of comprehensive income within the same line item in which the original provision was charged.

### 25.16 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 Company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity 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.

*(c) Retained earnings*

Retained earnings includes current and prior years' results of operations, net of transactions with shareholders and dividends declared, if any.

*(d) Dividend distribution*

Dividend distribution to Company's shareholder is recognized as a liability in its separate financial statements in the period in which the dividends are approved by the Board of Directors.

### 25.17 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.

### 25.18 Employee benefits

*(a) Retirement benefits*

The Company 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 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 Company measures the resulting asset at the lower of: (a) such amount determined; and (b) the present value of any economic benefits available to the Company 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 Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates: (a) when the Company 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 Company 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 Company 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.

### 25.19 Revenue and expense recognition

The Company assesses whether it is probable that the economic benefits will flow to the Company when the contract price is collectible. Collectability of the contract price is demonstrated by the buyer's commitment to pay, which is supported by the buyer's initial and continuous investments that motivates the buyer to honor its obligation. Collectability is also assessed by considering factors such as collections and credit standing of the buyer.

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. The Company has concluded that it is acting as principal in its revenue arrangements.

*(a) Rental income*

Rental income from operating leases (the Company 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 Company provides incentives to its lessees, the cost of incentives is recognized over the lease term, on a straight-line basis, as a reduction of rental income.

When the revenue recognition criteria are not met, cash received from lessees are recognized as advance rental, until the conditions for recognizing rental income are met.

*(b) 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 Company 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 tax.

*(c) Dividend income*

Dividend income is recognized when the right to receive payment is established.

*(d) Miscellaneous income*

Miscellaneous income is recognized when earned.

*(e) Cost and expenses*

Cost and expenses are recognized when these are incurred.

### 25.20 Leases

*(a) Company 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 statement of financial position (Note 25.8).

*(b) Company is the lessee*

Aside from exemptions in the standard for short-term and low-value leases, 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 Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period 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.

### 25.21 Foreign currency transactions and translation

*(a) Functional and presentation currency*

Items included in the separate financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The separate financial statements are presented in Philippine Peso, which is the functional and presentation currency of the Company.

*(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.

### 25.22 Related party relationships and transactions

Related party relationship exists when one party has the ability to control the other party, directly or indirectly through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprises and their key management personnel, directors, or its shareholder. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

### 25.23 Contingencies

Contingent liabilities are not recognized in the separate 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 separate financial statements but disclosed when an inflow of economic benefits is probable.

### 25.24 Events after the reporting period

Post year-end events that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the separate financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the separate financial statements when material.

## Note 26 - Supplementary information required by Bureau of Internal Revenue (BIR)

The following information required by Revenue Regulations No. 15-2010 is presented for purposes of filing with the BIR and is not a required part of the basic separate financial statements.

*(a) Output value-added tax (VAT)*

The Company is a VAT-registered company with VAT output declaration of P18,007,950 for the year based on the Vatable sales amounting to P150,066,249.

The VATable sales shown above is based on gross receipts of the Company following the provisions of Sec. 4.106-3 of RR No. 14-2005 (also known as the Consolidated Value-Added Tax Regulations of 2005), Sale of Real Properties, while the gross revenue in the statement of comprehensive income is measured in accordance with the Company's accounting policy for revenue recognition.

*(b) Input VAT*

Movements in input VAT for the year ended December 31, 2022 follow:

| | |
|---|---|
| Beginning balance | 20,671,920 |
| Current year's purchases: | |
| Purchases other than capital goods | 12,925,704 |
| Input tax applied against output tax | (17,422,277) |
| Total input VAT | 16,175,345 |

*(c) Documentary stamp tax*

Documentary stamp taxes paid for the year ended December 31, 2022 amounted to P3,935,772 which mainly pertain to taxes on dividends and cash advances.

*(d) All other local and national taxes*

All other local and national taxes accrued and paid for the year ended December 31, 2022 consist of:

| | Amount |
|---|---|
| Real property tax (included in Costs of sales and services) | 12,217,208 |
| Deficiency taxes | 15,029,808 |
| Documentary stamp tax | 3,935,772 |
| Business taxes | 659,460 |
| Permits | 202,387 |
| Community tax | 10,500 |
| BIR registration | 500 |
| Others | 1,813,713 |
| Subtotal (included in Taxes and licenses) | 21,652,140 |
| | 33,869,348 |

The local and national taxes, excluding real property tax, are presented as part of taxes and licenses in the statement of comprehensive income.

*Withholding taxes*

The amount of withholding taxes paid/accrued for the year amounted to:

| | Paid | Accrued | Total |
|---|---|---|---|
| Creditable withholding tax | 8,805,222 | - | 8,805,222 |
| Withholding tax on compensation | 88,825,455 | 6,271,069 | 95,096,524 |
| Expanded withholding tax | 9,644,810 | 1,022,892 | 10,667,702 |
| Final withholding taxes | 43,804,234 | - | 43,804,234 |
| Fringe benefit tax | 2,829,813 | 2,242,886 | 5,072,699 |

*(e) Tax assessments and cases*

There are no outstanding tax assessments and cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR as at December 31, 2022.