

STEADFAST

COMMITMENT

SHANG
PROPERTIES®

2015
ANNUAL
REPORT

VISION

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

MISSION

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

CORE VALUES

- **S**ervice
- **H**onesty
- **A**sian
- **N**obility
- **G**lobal



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COVER STORY

Shang Properties' steadfast commitment to its shareholders remains strong as it strives to pursue the values of clarity, vision, stability and balance.



MESSAGE TO STOCKHOLDERS

Shang Properties' commitment to the Philippines remained steadfast in 2015. With the country's property segment remaining strong in the face of its' stable economic performance, our year-end financial reports reflected a modest growth of 4% in net income or Php2.8 billion versus Php2.7 billion in 2014. These positive results are attributed to sales and construction completion of our residential projects, recurring income from our office and mall subsidiaries, and the revaluation of our prime assets.

*“ We remain confident about
the long term prospects of
Shang Properties in the Philippines
and continue our focus on looking
for new investment opportunities
that may arise.”*

Shangri-La at the Fort, Manila, the 62-storey landmark mixed-use development in the heart of Bonifacio Global City in which the company has a 60% interest, neared completion and partially opened in March 2016. Sales of the 98 Horizon Homes luxury residential units on top of the 250 meter high tower continued at a steady pace. Horizon Homes carries the global distinction of being the only residences that are located on top of a Shangri-La owned and managed hotel.

Our two residential projects in Makati, Shang Salcedo Place and The Rise, are currently under construction and celebrated key milestones in 2015. The 67-storey Shang Salcedo Place topped off in November 2015 and is targeting to turn over to unit buyers towards late 2016 or in early 2017. The Rise, located in NOMA or North Makati, is 59 storeys high and has 3,044 units located above a two-level mall. Work has begun on the superstructure and the development is expected to be completed towards the end of 2019.

One Shangri-La Place, our twin tower residential development in Ortigas Center, is almost sold out, and we are currently in the process of handing-over units to buyers. Its amenities remain best in its class and have set the benchmark for luxury residential amenities in the country today.

The office sector's positive outlook continued in 2015. The average occupancy of The Enterprise Center, our office building in the Makati Central Business District, peaked at 99% in June, and continued to command one of the highest lease rates despite the entry of newer office developments.

After 16 years in operation, The Enterprise Center embarked on an extensive upgrade of its facilities, amenities and major equipment, including a comprehensive makeover of the common area restrooms, lift lobbies, and corridors in the tenanted floors and improvements to the lobbies, retail floor, driveway and the surrounding landscape. These renovations are expected to be completed by mid-2017. With these upgrades, we believe that The Enterprise Center will strengthen its stature as the leading business address in Makati.

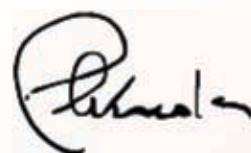
Our retail subsidiary, Shangri-La Plaza, continued to face stiff competition as new malls opened in Metro Manila and smaller retail establishments opened in secondary areas, all offering very competitive rates. In order to maintain the mall's positioning as a key lifestyle destination, Shangri-La Plaza's Main Wing continued its major renovations and

redevelopment, which we expect to complete by mid-2016. The creation of additional spaces is intended to generate excitement and attract local and foreign retail brands, therefore increasing additional sources of revenue and growth.

Shang Properties' success in 2015 is reflected in its gross revenues of Php8.3 billion, an 8.8% increase from Php7.6 billion of the previous year. Shareholders' equity was up 8.9% from Php23.8 billion to Php25.9 billion. This resulted in higher earnings per share which increased by 4.2% to Php0.598 from Php0.574 in 2014. This in turn, allowed Shang Properties to declare a higher dividend per share of Php0.15 from Php0.13 of the previous year, an increase of 14.8%.

We remain confident about the long term prospects of Shang Properties in the Philippines and continue our focus on looking for new investment opportunities that may arise.

All our achievements in 2015 were made possible with the support of our Board of Directors and the dedication of our management and staff. We thank them, as well as our business partners, buyers, tenants and customers for the unwavering trust they continue to place in Shang Properties.



EDWARD KUOK KHOON LOONG
Chairman

BUSINESS  REVIEW

RESIDENTIAL







SHANGRI-LA AT THE FORT

Shangri-La at the Fort, the company's landmark, mixed-use development at the Bonifacio Global City partially opened in March 2016. It features a world-class Shangri-La Hotel; the Shangri-La Residences; Kerry Sports Manila, and the ultra-exclusive Horizon Homes all within the same prime property in Metro Manila's newest lifestyle and business hub.

The hotel offers 576 spacious suites and guest rooms with a minimum size of 45 square meters and unparalleled views of the city and surrounding areas. It boasts of one of the largest portfolios of conference and event venues, including a pillar-less Grand Ballroom that can accommodate up to 1,800 guests, and seven food and beverage outlets.

The Shangri-La Residences, on the other hand, have 97 one-, two- and three-bedroom residences measuring 90 sqm to 124 sqm, catering to guests who prefer luxury apartment-style living. Each residence is fitted with a kitchenette, living and dining areas, a walk-in wardrobe and other modern amenities.

With over 8,000 sqm of space, Kerry Sports Manila will be the city's most comprehensive indoor fitness and recreation offering multiple training zones for all ages and lifestyle.



The Horizon Homes is a collection of 98 limited and highly customized homes. Each unit will have a spacious, open-plan layout designed to bring families and friends closer together for that distinctive Shangri-La hospitality experience – warm, caring and with an attention to detail that comes only with service from the heart.

Horizon Homes is scheduled for completion in the latter part of 2016, with 29 of the 98 Horizon Homes sold, bringing in sales of Php3.17 billion as of end-December 2015.



Artist's renderings



RESIDENTIAL

THE RISE

MAKATI



The Rise in North Makati or NoMa sustained strong sales momentum in 2015 after a stellar market debut in 2014. Sales reached Php5.91 billion representing 1,829 units sold or 60% of the total 3,044 units in its inventory.

The company's latest residential project has a total net sellable area of 106,460 sqm, of which 55% or 58,831 sqm have been sold.

Located along Malugay Street, its residential units sit atop a two-level boutique mall that will feature cafes, convenience stores, and other services. These will offer residents comfortable and stylish living without needing to venture far away.

At 59 storeys high, The Rise offers innovative lifestyle choices in a dynamic neighborhood teeming with galleries,

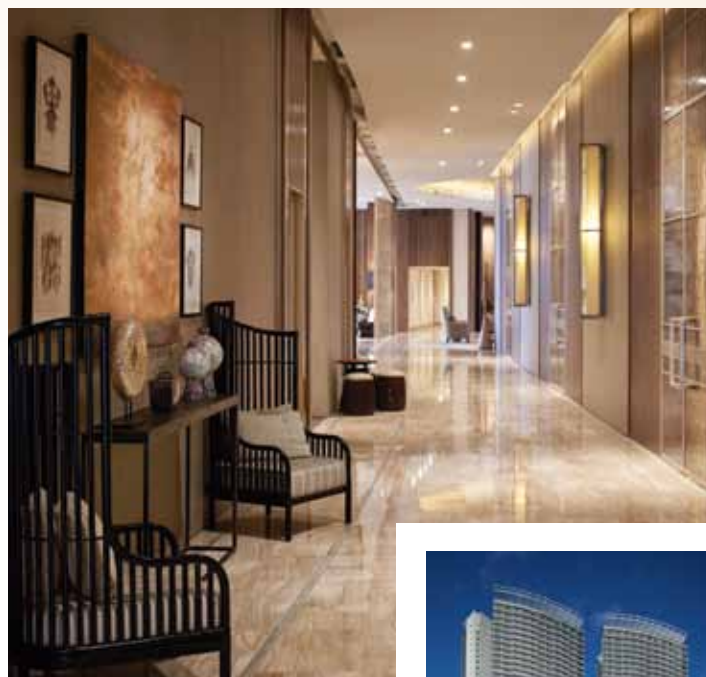
delicatessens and bistros, indie music venues and unique retail destinations.

Among The Rise's unique amenities is The Hangout, a 300 sqm open lounge for entertaining friends and loved ones.

For meetings and school or work-related activities, there is The Workshop that offers an IT bar, a library, reading room, meeting rooms and other quiet nooks and spaces.

The Nest, on the other hand, is designed for wellness and relaxation, a welcome refuge from the hustle and bustle of city life, for just hanging around and curling up with a good read.

Other amenities include a tropical pool and children's pool, a jogging trail, children's play space, barbecue patio, and a modern, fully equipped gym.



Artist's rendering



Shang Salcedo Place is the company's second residential project in Makati City.

This 67-storey luxury development offers only 749 units for sale – an exclusivity that will redefine the standards of luxury in Salcedo Village.

By end of 2015, Shang Salcedo Place sold 432 units or 58% of its total inventory, equivalent to 26,825 sqm or 59% of the total 45,521 sqm, and generating Php3.27 billion in sales revenues.

Offering convenience and accessibility, Shang Salcedo Place is in the heart of the Makati Central Business District. It is perfect for those who wish to live, work and play with family and friends always nearby – minus the hassle of traffic and time-consuming commutes.

Shang Salcedo Place features amenities like separate swimming pools for children and adults, a gym and exercise rooms, and a children's play area. An outdoor garden at the podium level, on the other hand, provides a refreshing environment and invigorating views.

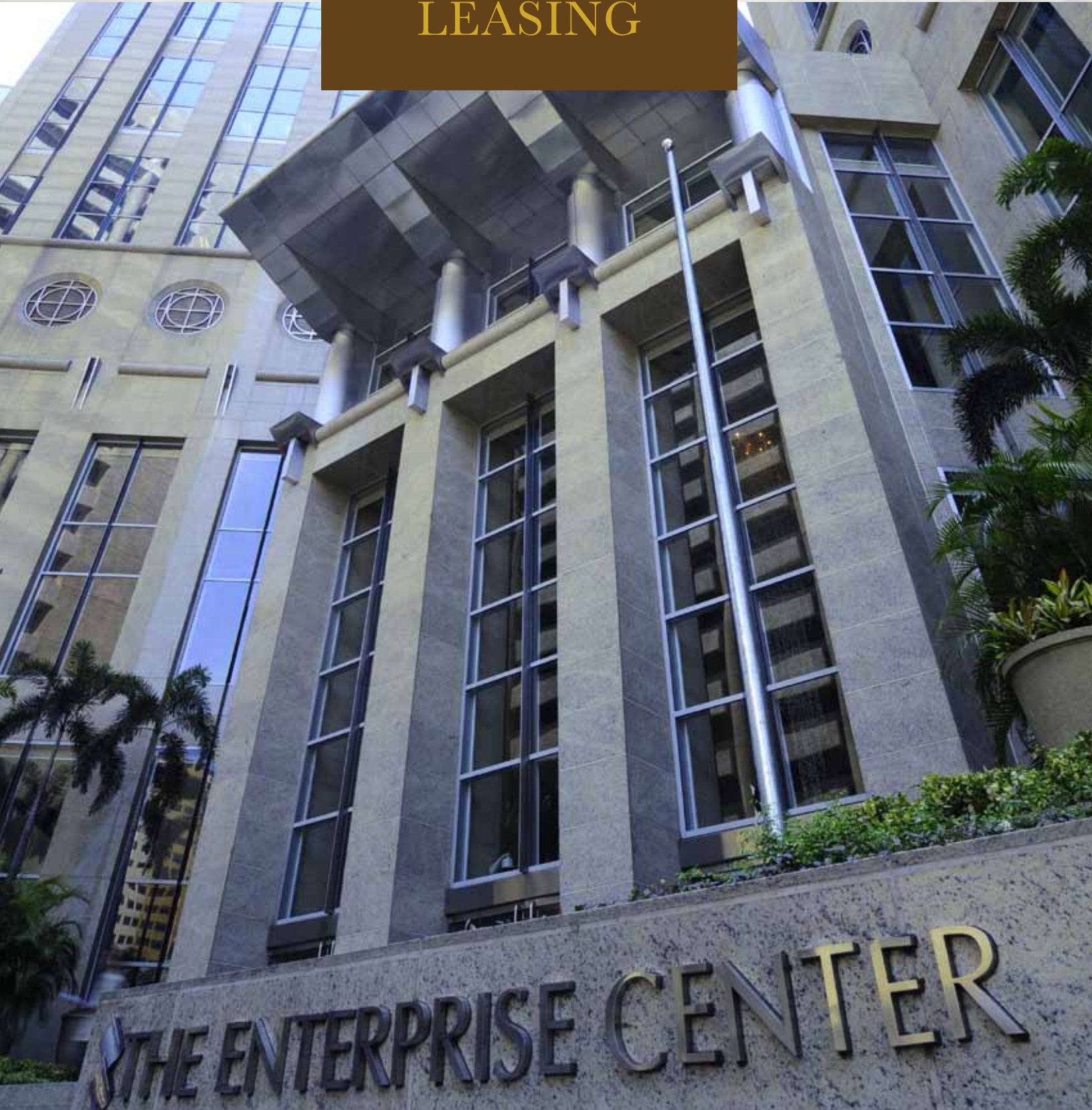
One Shangri-La Place is Shang Properties' biggest completed project to date with a total development cost of Php11 billion.

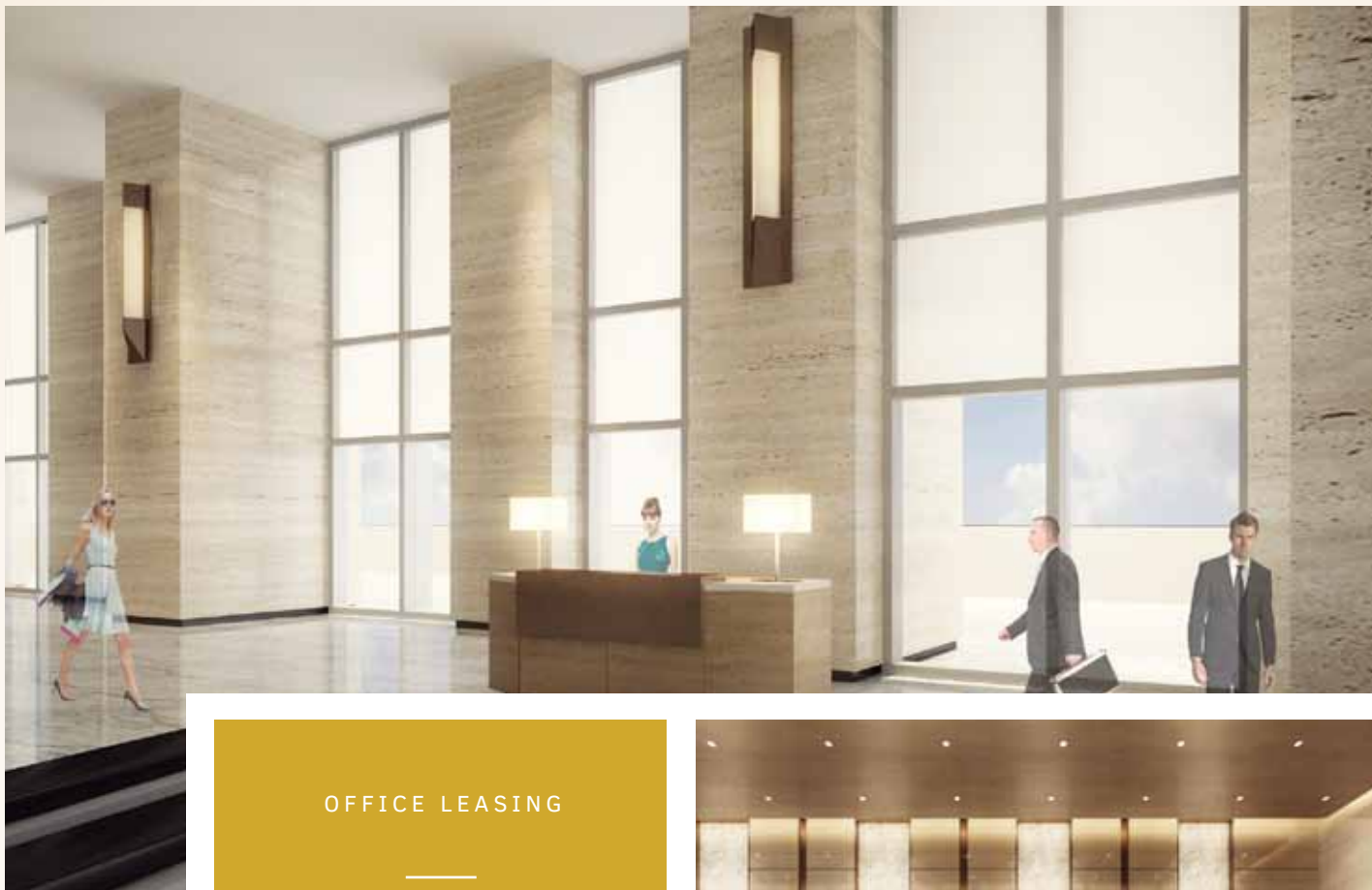
Located on top of Shangri-La Plaza's East Wing expansion at the Ortigas Center in Mandaluyong City, the 64-storey twin tower residential condominium is nearly sold out, with 1,225 units or 95% of 1,284 units already taken as of end-2015. The total sales revenue is Php12.2 billion as of December 2015.

One Shangri-La Place offers amenities that serve as the benchmark for luxury residential developments in the Philippines, making it a most sought after and prestigious address.

BUSINESS  REVIEW

OFFICE LEASING





OFFICE LEASING

—

THE
ENTERPRISE
CENTER

—



Artist's renderings

The Enterprise Center also continued the extensive renovations of the majority of its facilities, amenities and major equipment.

As of December 2015, the upgrades were 25% completed, with the remaining 75% expected to be finished by mid-2017. The upgrades should allow The Enterprise Center to further strengthen its stature as the leading business address of the country's top local and foreign corporations.

The Enterprise Center posted a net income of Php1.28 billion in 2015, an 85% increase from the previous year's Php690 million, mainly on the back of a one-time net gain on revaluation of Php517 million. Gross revenues shot up 90% to Php1.75 billion from Php920 million in 2014.

Minus the revaluation gain, TEC's net income grew 10% to Php759 million.

The hike in revenues and net income is primarily attributed to the 13% increase in rental yield per square meter which averaged Php1,103 from Php977 versus the previous year.

Gross rental income was Php992 million, up 9.5% from Php906 million in 2014.

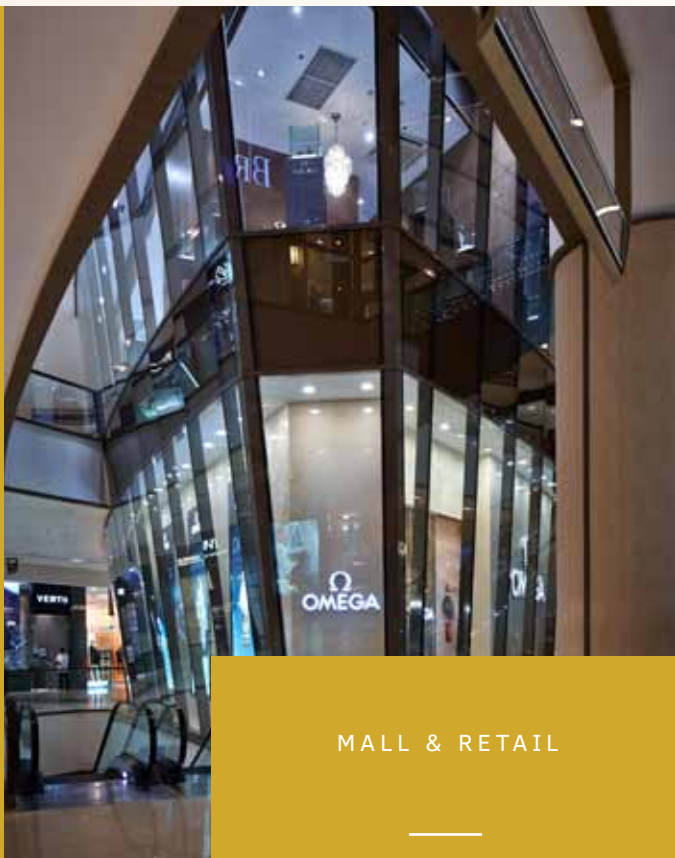
The higher rental yield likewise offset the slight drop in average occupancy of 95.9% in 2015 from 97.5% in the previous year, a decline of 1.6%.

BUSINESS  REVIEW

MALL & RETAIL







MALL & RETAIL

SHANGRI-LA PLAZA





The retail industry grew even more competitive in 2015. The retail floor stock continued to increase as new malls opened, including some right next to Shangri-La Plaza. In the face of all these pressures, Shangri-La Plaza forged ahead with its redevelopment program to mitigate the effects of stiff competition.

With Shangri-La Plaza's redevelopment program nearing its tail-end, there is now a visible unified look between the Main Wing and the East Wing. The highlights of the Main Wing redevelopment include the creation of new leasable space for additional revenue, the enhancement of circulation and retail space visibility, the improvement of artificial and natural light sources, the creation of new feature elements, and the construction of a mall chapel among others. All these are envisioned to make the Shang lifestyle a truly pleasurable experience.

The rejuvenation of the mall goes beyond the physical. New brands and concepts were also introduced to enrich Shang's world-class portfolio. Likewise, the mall reinforced its re-zoning program by addressing merchandise mix gaps and continually refreshing the offerings in existing zones.

Meanwhile, the mall's marketing programs focused on efforts to help drive tenant business and stimulate customer traffic, as well as further strengthen Shang's brand image. Through

synergies with retail partners, several zone-based lifestyle themed events were mounted throughout the year to promote tenants' offerings. Various mall-wide sales generating activities were also held to mitigate competitive challenges and inconveniences caused by the redevelopment works. All of these initiatives were amply supported by comprehensive communication efforts.

In 2015, the Shang Cineplex posted a record-high occupancy, the highest level attained since its opening in 2004. With the Shang Cineplex becoming the preferred destination of upscale moviegoers, gross revenue of both the Cineplex and Cinebar also grew.

The mall's productivity improvement and cost management efforts continued to post significant savings, notably its energy conservation program. Since the start of the program in 2002, cumulative savings amounting to hundreds of millions of pesos have been realized from the Main Wing alone.

Through the organization's commitment and concerted efforts, there is no doubt that the full completion of the mall's redevelopment program in 2016 will further cement Shangri-La Plaza's positioning as the country's most established upscale lifestyle destination.

BOARD OF DIRECTORS

Edward Kuok Khoon Loong

is the Chairman of the Company and also Vice Chairman of Kerry Holdings Limited. He has been with the Kuok Group since 1978. He has a Masters degree in Economics from the University of Wales in the United Kingdom.

Alfredo C. Ramos

is the Vice Chairman of the Company. He is the Chairman of the Board of Anglo Philippine Holdings, Inc., Anvil Publishing, Inc., Carmen Copper Corporation, NBS Express, Inc. and Vulcan Materials Corporation. He is the Chairman and President of Atlas Consolidated Mining & Development Corporation, the Philodrill Corporation, National Book Store, Inc., Vulcan Industrial & Mining Corporation and United Paragon Mining Corporation. He is also the President of Abacus Book & Card Corporation, Crossings Department Store Corp., Power Books, Inc., and MRT Holdings Inc. He is Vice Chairman of Shangri-La Plaza Corporation, MRT Development Corporation, Metro Rail Transit Corporation and LR Publications, Inc.

Johnny O. Cobankiat

is the President of Co Ban Kiat Hardware, Inc., Ace Hardware, Philippines, and Coby's Marketing Corp. He is Vice Chairman of the Federation of Filipino-Chinese Chamber of Commerce, Director of R. Nubla Securities, Inc. and of the Philippine Hardware Association.

Antonio O. Cojuangco

is the Chairman of Ballet Philippines, CAP Life Insurance Corporation, Cinemalaya Foundation, Mantrade Development Corporation, Nabasan Subic Development Corporation, Radio Veritas, Tanghalang Pilipino, and Directories Philippines Corporation. He is the President and Director of Calatagan Golf Club Inc. and Canlubang Golf and Country Club.

Manuel M. Cosico

is a Partner of Romulo, Mabanta, Buenaventura, Sayoc & de los Angeles Law Firm. He is Chairman of the Construction Industry Arbitration Commission (CIAC) since 2011 and was a former Arbitrator of CIAC from 2001 to 2011. He was previously the Presiding Judge of Branch 136 of the Regional Trial Court of Makati from 1986 to 1991 and a Special Criminal Court Judge from 1986 to 1991. He was formerly a Professor of Evidence, Civil Procedure, Special Proceedings and Trial Techniques at the Ateneo de Manila University.

Cynthia Roxas Del Castillo

is a Partner at Romulo, Mabanta, Buenaventura, Sayoc & de los Angeles and has been with the firm for over 30 years. She holds an LL.B from Ateneo, graduated Valedictorian in 1976 and placed 11th in the 1976 Bar Examinations. She currently serves as Corporate Secretary and Director of other various Philippine corporations.

Danila Regina I. Fojas

is the Executive Vice President and General Manager of Shangri-La Plaza Corporation. She is also a Director of KSA Realty Corporation, Shang Global City Properties Inc., and Makati Shangri-La Hotel and Resorts, Inc. She is the first female to graduate with honors from the Asian Institute of Management. She completed her Masters in Business Management with Distinction in 1978 and participated in the one year advanced top management course in economics and business development at the University of Asia and the Pacific in 1993.

Ho Shut Kan

is the President of Kerry Properties Limited [KPL]. He is responsible for overseeing the operations of the project companies and the projects of KPL in Hong Kong, Macau and overseas. He is a non-executive director of Eagle Asset Management (CP) Limited and manager of Champion Real Estate Investment Trust, which is listed in Hong Kong.

Koay Kean Choon

is the Senior Project Director of the company. He worked as M&E Manager with Kerry Project Management Ltd. Hong Kong from 1989 to 2000 and as Senior Project Manager for Shangri-La Hotel Management Ltd. from 2000 to 2011.

Wilkie Lee

is a Project Director of Kerry Properties Ltd. He obtained his Bachelor's Degree in Civil Engineering from the University of Saskatchewan, Canada and a Masters Degree in Business Administration from the University of Notre Dame, USA and the London Business School.

Maximo G. Licauco III

is the Director of the Philodrill Corporation. He is also President of Filstar Distributors Corporation (Hallmark Licensee) and Area Vice President of National Book Store, Inc.

Kinsun Andrew Ng

is the Group Financial Controller of the Company. He also serves as Director of the various boards of Shang Properties affiliates and subsidiaries. He is an associate member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants in the U.K. He graduated from the Hong Kong Shue Yan University with a degree in Accounting.

Federico G. Noel, Jr.

is the General Counsel and the Corporate Secretary of the Company. He is also the Corporate Secretary, General Counsel and a member of the Board of Directors of the other Kuok Group companies in the Philippines including the Shangri-La Plaza Corporation and the Shangri-La Hotels. He graduated from the Ateneo Law School in 1991 with a Juris Doctor degree.

Benjamin I. Ramos

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

Wilfred Shan Chen Woo

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

CORPORATE GOVERNANCE

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

The following sections demonstrate the Company's compliance with these principles as detailed in the Manual during the financial year ending December 31, 2015.

THE BOARD OF DIRECTORS

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

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

	2016*	2015	2014
Number of Meetings	1	5	5
Attendance			
Executive	100%	100%	100%
Independent Non-Executive	40%	78%	66%
Average	60%	85%	77%

*Meetings are held in the year-to-date

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

Board Composition

The Board is currently composed of five (5) Executive Directors and ten (10) Non-Executive Directors of which three (3) are Independent Directors.

The Executive Directors are Messrs. Wilfred Shan Chen Woo, Koay Kean Choon, Ms. Danila Regina I. Fojas, Kinsun Andrew Ng, and Federico G. Noel Jr., The Non-Executive Directors are Edward Kuok Khoon Loong, Alfredo C. Ramos, Johnny O. Cobankiat, Antonio O. Cojuangco, Manuel M. Cosico, Cynthia Roxas del Castillo, Ho Shut Kan, Wilkie Lee, Maximo G. Licaucio III, and Benjamin I. Ramos. Messrs. Cobankiat, Cojuangco and Cosico were elected Independent Directors. The biographies of the Directors are set out on page 16 and 17 of this annual report, which demonstrate a diversity of skills, expertise, experience and qualifications.

Division of Responsibilities

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

The Executive Directors are tasked with the day-to-day running of the Company and are responsible for the different aspects of Shang Properties' businesses.

Non-Executive Directors bring strong independent judgment, knowledge and experience to the Board's deliberations. Apart from their appointments, the Non-Executive Directors do not have any form of service contract with the Company or any of its subsidiaries.

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

Directors' Re-election and Removal

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

Access to Information

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

DELEGATION BY THE BOARD

Executive Committee

The Executive Committee consists of five (5) members of the Board. It meets regularly and operates as a general management committee chaired by Wilfred Shan Chen Woo, an Executive Director and Executive Assistant to the Chairman. The Executive Committee meets to discuss the corporate and development strategies of the Company.

Nomination Committee

Pursuant to its Corporate Governance Manual, the Board created a Nomination Committee in August 2005 composed of three (3) Directors with at least one (1) Independent Director of the Company. The committee acts in an advisory capacity and makes recommendations to the Board. It promulgates the guidelines or criteria to govern the conduct of the nominations of the Directors. The same is properly disclosed in the Company's information statement or as well as any reports that are submitted to the Securities and Exchange Commission.

ACCOUNTABILITY AND AUDIT

Financial Reporting

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

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

Internal Controls

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

During the year ended 31 December 2015, the Board, through the Audit Committee, reviewed the risks and evaluated the internal control framework that operates within the Company and considered that the system of internal controls in operation is effective.

More details on the Company's internal control framework and the Board's process to evaluate its system of internal controls is set out in the section headed internal controls on page 20 of this annual report.

Audit Committee

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

The major responsibilities of the Audit Committee are:

- To check that all financial reports comply with pertinent accounting standards, including regulatory requirements;
- To perform oversight financial management functions specifically in the areas of managing credit, market, liquidity, operational, legal and other risks of the Company, and crisis management;
- To perform direct interface functions with the internal and external auditors;
- To elevate to international standards the accounting and auditing processes, practices and methodologies, and to develop, among others, a timetable within which the accounting system of the Company will be 100% compliant with International Accounting Standards.
- To develop a transparent financial management system that will ensure the integrity of internal control activities throughout the Company through a step-by-step procedures and policies handbook that will be used by the entire organization.

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

	2016*	2015	2014
Number of Committee Meetings	1	5	5
Attendance	60%	88%	76%

*Meetings are held in the year-to-date

Auditor's Remuneration

During the financial year ended 31 December 2015, the fees paid / payable to the auditor in respect of the audit and non-audit services provided by the external auditor to the Company amounted to Php4.0 million.

INTERNAL CONTROLS

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

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

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

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

In addition, the Board also monitors its internal controls through a program of internal audits. The internal audit team

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

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

COMMUNICATION WITH SHAREHOLDERS

Investor Relations

Communication Channels

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

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

General Meetings

1. The general meeting provides a forum for the Board to communicate with the shareholders of the Company.
2. To facilitate enforcement of shareholders' rights, significant issues are dealt with under separate resolutions at general meetings.
3. The 2014 Annual Stockholders' Meeting of the Company was held on 18 June 2015 at the Garden Ballroom, Edsa Shangri-La, Ortigas Center, Mandaluyong City. The following resolutions were passed during the meeting:
 1. To adopt the audited financial statements and the report of the directors and the auditors for the financial year ended 31 December 2014.
 2. To ratify the acts of the Board of Directors and the Management since the annual meeting of stockholders held on 24 June 2014.
 3. To elect the members of the Board of Directors for the year 2015-2016, namely: Koay Kean Choon, Johnny O. Cobankiat, Antonio O. Cojuangco, Manuel M. Cosico, Cynthia Roxas del Castillo, Danila Regina I. Fojas, Ho Shut Kan, Edward Kuok Khoon Loong, Wilkie Lee, Maximo G. Licaucó III, Kinsun Andrew Ng, Federico G. Noel Jr., Alfredo C. Ramos, Benjamin I. Ramos. and Wilfred Shan Chen Woo
 4. To re-appoint SGV as external auditors for the year 2015-2016.

FINANCIAL HIGHLIGHTS

		2015	2014	Change
Turnover	(Php M)	8,284	7,612	8.8%
Profit attributable to shareholders	(Php M)	2,850	2,735	4.2%
Shareholders' equity	(Php M)	25,931	23,819	8.9%
Earnings per share	(Php Ctv)	0.598	0.574	4.2%
Net asset value per share	(Php)	5.446	5.002	8.9%
Share price at year end	(Php)	3.130	3.300	-5.2%
Price earnings ratio at year end	(Ratio)	5.230	5.745	-9.0%
Market capitalisation at year end	(Php M)	14,911	15,054	-0.9%
Dividend per share	(Php Ctv)	0.16	0.14	14.8%
Dividend payout ratio	(%)	25.9%	23.5%	10.2%
Dividend yield at year end	(%)	5.0%	4.1%	21.1%
Operating Margin	(%)	59.1%	57.2%	3.4%
Return on equity	(%)	11.0%	11.5%	-4.3%
Return on total financing	(%)	7.8%	8.0%	-3.2%
Interest cover	(Ratio)	24.652	19.121	28.9%
Gross interest as a % of total borrowings	(%)	1.6%	1.9%	-13.5%
Current ratio	(Ratio)	2.1	2.4	-
Total Debt to Equity	(%)	78.3%	85.3%	-8.2%
Total Bank Loans to Equity	(%)	48.1%	51.0%	-5.8%

Turnover
PhP Millions



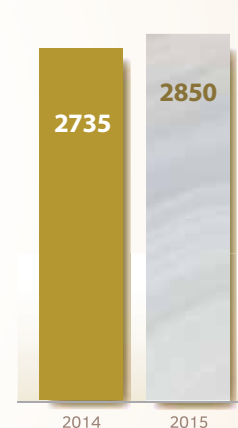
Earnings Per Share
PhP



Net Asset Value Per Share
PhP



Profit Attributable to Shareholders
PhP Million



STOCK PERFORMANCE AND SHAREHOLDER MATTERS

STOCK BEHAVIOR: QUARTERLY SHARE PRICE

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

2015	HIGH (in Php)	LOW (in Php)
First Quarter	3.34	3.10
Second Quarter	4.90	3.11
Third Quarter	3.37	3.10
Fourth Quarter	3.29	3.01

2014	HIGH (in Php)	LOW (in Php)
First Quarter	3.29	3.05
Second Quarter	3.60	3.08
Third Quarter	3.47	3.20
Fourth Quarter	3.60	3.18

2013	HIGH (in Php)	LOW (in Php)
First Quarter	3.87	3.00
Second Quarter	3.95	2.71
Third Quarter	3.69	3.00
Fourth Quarter	3.29	2.90

DIVIDENDS

For the year 2015, the Board of Directors declared total cash dividends of Php738 Million (2014:Php643 Million)

SHAREHOLDER PROFILE

As of 31 December 2015, the Company had 5,403 stockholders. Common shares outstanding as of said date are 4,764,058,982. The Company's stockholders owning at least 5% or more of the common shares outstanding as of 31 December 2015 are:

Rank	Shareholders	No. of Shares	Percentage %
1	TRAVEL AIM INVESTMENT B.V.*	1,648,869,372	34.61
2	PCD NOMINEE CORPORATION (FILIPINO)	2,662,599,481	55.86

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

10-YEAR FINANCIAL SUMMARY

	2015	2014	2013
Profit and loss account	Php '000	Php '000	Php '000
Turnover	8,283,689	7,612,188	6,908,465
Operating profit	4,898,066	4,351,455	3,244,166
Interest expense & bank charges	(201,559)	(227,066)	(184,962)
Share in profit (loss) of associated companies	70,658	(9,693)	(4,674)
Profit before taxation	4,767,165	4,114,696	3,054,530
Taxation	(1,189,139)	(995,502)	(751,430)
Profit after taxation	3,578,027	3,119,194	2,303,100
Minority interests	(728,214)	(383,818)	(291,827)
Profit attributable to shareholders	2,849,813	2,735,376	2,011,273
Assets and liabilities			
Fixed assets	41,890,783	38,389,161	27,295,207
Associated company	491,948	410,790	2,441,310
Other assets	63,411	68,494	37,286
Net current assets/(liabilities)	9,452,538	9,612,668	5,257,295
Long term liabilities	51,898,681	48,481,113	35,031,099
Total equity	32,301,583	27,784,333	24,790,791

2012 as restated	2011	2010	2009	2008	2007 as restated	2006
Php'000	Php'000	Php'000	Php'000	Php'000	Php'000	Php'000
5,406,229	3,589,163	2,797,513	4,030,408	3,781,157	3,108,922	1,587,373
2,574,363	2,070,157	1,865,515	2,137,487	1,905,348	1,220,915	474,036
(172,280)	(213,337)	(261,892)	(313,261)	(298,744)	(54,125)	(50,542)
29,491	19,967	84,238	(2,724)	4,672	127,695	62,370
2,431,575	1,876,787	1,687,860	1,821,502	1,611,276	1,294,485	485,864
(536,193)	(514,785)	(402,266)	(319,475)	(509,645)	(306,520)	152,753
1,895,382	1,362,002	1,285,594	1,502,027	1,101,631	987,965	638,617
(248,905)	(305,286)	(284,891)	(330,539)	(221,831)	(43,369)	(30,675)
1,646,477	1,056,716	1,000,703	1,171,489	879,801	944,596	607,942
25,506,150	24,961,947	24,217,513	24,068,278	24,500,533	16,677,884	14,757,807
2,514,446	2,480,863	1,834,046	1,742,446	1,736,745	1,537,670	1,335,602
42,956	29,575	417,677	418,724	403,873	36,804	9,073
4,563,719	4,061,180	4,897,750	4,171,218	3,376,368	3,268,579	2,889,756
32,627,270	31,533,564	31,366,986	30,400,666	30,017,520	21,520,938	18,992,237
(9,474,933)	(9,743,185)	(9,915,737)	(9,683,477)	(10,353,073)	(4,760,440)	(4,294,957)
23,152,338	21,790,379	21,451,248	20,717,189	19,664,446	16,760,498	14,697,280

Statement of Management's Responsibility for the Financial Statements

March 4, 2016

To the Securities and Exchange Commission
SEC Building, EDSA, Greenhills
City of Mandaluyong, Metro Manila

The management of **Shang Properties, Inc.** is responsible for the preparation and fair presentation of the **consolidated** financial statements as of December 31, 2015 and 2014, including the additional components attached therein, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the **consolidated** financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

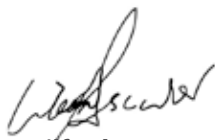
The Board of Directors reviews and approves the **consolidated** financial statements and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditors, appointed by the stockholders have examined the **consolidated** financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such examination.

Signed under oath of by the following:



Edward Kuok
Chairman of the Board



Wilfred Woo
Executive Assistant to the Chairman



Kinsun Ng
Vice-President – Group Financial Controller/ Acting Chief Financial Officer

Audit Committee Report

For the year ended 31 December 2015

The Audit Committee of The Board has been established since 2002 is composed of three (3) Directors, one (1) Executive and two (2) Non-executive Directors, of whom 2 (two) are independent directors and with audit experience. The chair of the Audit Committee is an independent director.

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

In performing its responsibilities, set out below is a summary of the work performed by the Audit Committee during the financial year ended 31 December 2015.

- (i) The Audit Committee reviewed the draft annual and interim financial statements and the draft results announcements of the Company, focusing on main areas of judgment, consistency of and changes in accounting policies and adequacy of information disclosure prior to recommending them to the Board for approval.
- (ii) The Audit Committee reviewed, in conjunction with the external auditor, the developments of accounting standards and assessed their potential impacts on the Group's financial statements.
- (iii) The Audit Committee assessed the independence of the Company's external auditor, prior to formally engaging the external auditor to carry out the audit for the Company's financial statements for the year ended 31 December 2015.
- (iv) Prior to the actual commencement of the audit, the Audit Committee discussed the proposed scope of work and approach of the audit with the external auditor. Upon completion of the audit, the Audit Committee reviewed the results of the external audit, and discussed with the external auditor on any significant findings and audit issues.
- (v) The Audit Committee recommended to the Board regarding the appointment and remuneration of the external auditor.
- (vi) The Audit Committee reviewed and approved the internal audit program, reviewed the internal audit reports and discussed any significant issues with the internal audit team and the Group's senior management.

- (vii) The Audit Committee reviewed the independence of the internal audit function and the level of support and co-operation given by the Group's management to the internal audit team, as well as the resources of the internal audit team when undertaking its duties and responsibilities,
- (viii) The Audit Committee reviewed the adequacy and effectiveness of the Group's systems of internal controls, through a review of the work undertaken by the Group's internal and external auditor, written representations by the senior management of each of the Group's business divisions and discussions with the Board.

During the financial year ended 31 December 2015, the Audit Committee met three times and the Audit Committee also conducted meetings with the Group's senior management, the external auditor and the internal audit team from time to time. Minutes of the Audit Committee Meetings are documented and circulated to the Board for information. The Audit Committee also reports and presents its findings and makes recommendations for consideration and discussion at Board meetings.

The Audit Committee reviewed the financial statements of the Group for the year ended 31 December 2015 prior to recommending them to the Board for approval.

Members of the Audit Committee:

MR. JOHNNY O. COBANKIAT
Chairman

MR. ALFREDO C. RAMOS
Member

MR. MANUEL M. COSICO
Member

Independent Auditors' Report

The Stockholders and the Board of Directors
Shang Properties, Inc.

We have audited the accompanying consolidated financial statements of Shang Properties, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2015, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

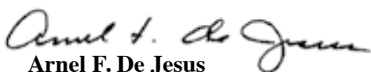
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Shang Properties, Inc. and Subsidiaries as at December 31, 2015 and 2014, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2015 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Arnel F. De Jesus

Partner

CPA Certificate No. 43285

SEC Accreditation No. 0075-AR-3 (Group A),

February 14, 2013, valid until April 30, 2016

Tax Identification No. 152-884-385

BIR Accreditation No. 08-001998-15-2015,

June 26, 2015, valid until June 25, 2018

PTR No. 5321627, January 4, 2016, Makati City

March 4, 2016

Consolidated Statements of Financial Position

	December 31	
	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents (Note 5)	P4,041,169,742	P2,911,004,820
Financial assets at fair value through profit or loss (Note 6)	34,882,100	33,012,524
Receivables (Notes 7 and 31)	2,172,434,657	4,162,249,384
Properties held for sale (Note 8)	7,160,774,272	5,773,117,694
Input tax and other current assets (Note 9)	1,765,695,509	1,805,192,006
Total Current Assets	15,174,956,280	14,684,576,428
Noncurrent Assets		
Installment contract receivable - net of current portion (Note 7)	660,986,703	—
Investments in associates and joint venture (Note 10)	491,948,350	410,790,229
Investment properties (Note 13)	28,178,567,875	27,110,867,488
Real estate development projects (Note 14)	13,576,917,290	11,211,283,922
Available-for-sale financial assets (Note 15)	504,872,842	502,822,842
Property and equipment (Note 16)	135,297,925	67,009,417
Goodwill (Note 12)	269,870,864	269,870,864
Deferred income tax assets - net (Note 29)	235,860,271	356,407,946
Other noncurrent assets (Note 17)	63,411,421	68,493,754
Total Noncurrent Assets	44,117,733,541	39,997,546,462
TOTAL ASSETS	P59,292,689,821	P54,682,122,890
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities (Notes 18 and 31)	P5,557,385,891	P4,883,213,157
Current portion of:		
Installment payable (Note 8)	153,152,398	—
Bank loans (Note 19)	867,751,562	583,333,333
Deposits from tenants (Note 20)	477,494,580	484,423,000
Deferred lease income (Note 20)	6,520,818	18,163,625
Income tax payable	183,238,555	127,582,324
Dividends payable (Notes 11 and 22)	148,464,960	104,294,980
Total Current Liabilities	7,394,008,764	6,201,010,419
Noncurrent Liabilities		
Installment payable - net of current portion (Note 8)	709,915,105	—
Accrued employee benefits (Note 27)	49,815,160	68,502,035
Bank loans - net of current portion (Note 19)	11,596,577,925	11,565,335,572
Deferred income tax liabilities - net (Note 29)	6,688,462,938	6,589,901,691
Deposits from tenants - net of current portion (Note 20)	538,150,247	494,021,217
Deferred lease income - net of current portion (Note 20)	14,176,917	20,018,732
Deposit for future stock subscription (Note 11)	—	1,959,000,000
Total Noncurrent Liabilities	19,597,098,292	20,696,779,247
Total Liabilities	26,991,107,056	26,897,789,666

(Forward)

	December 31	
	2015	2014
EQUITY		
Equity attributable to equity holders of the Parent Company:		
Capital stock (Note 21)	¥4,764,058,982	¥4,764,058,982
Additional paid-in capital	834,439,607	834,439,607
Treasury shares (Note 21)	(6,850,064)	(6,850,064)
Other components of equity (Notes 15 and 27)	(7,126,043)	(8,046,511)
Retained earnings (Notes 21 and 22)	20,346,650,494	18,234,935,332
	25,931,172,976	23,818,537,346
Equity attributable to non-controlling interests (Note 11)	6,370,409,789	3,965,795,878
Total Equity	32,301,582,765	27,784,333,224
TOTAL LIABILITIES AND EQUITY	¥59,292,689,821	¥54,682,122,890

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

	Years Ended December 31		
	2015	2014	2013
REVENUES			
Condominium sales	₱4,654,102,798	P3,764,277,893	P3,935,170,304
Rental	2,676,323,065	2,624,893,646	2,338,990,151
Cinema	60,681,786	60,367,560	56,448,809
	7,391,107,649	6,449,539,099	6,330,609,264
COST AND EXPENSES			
Cost of condominium sales (Note 24)	2,374,666,153	2,442,444,122	2,991,014,104
Staff costs (Note 26)	459,471,807	295,539,144	241,336,108
Taxes and licenses (Note 25)	219,809,224	205,446,842	145,063,414
General and administrative (Note 25)	221,094,023	193,324,687	156,933,328
Unreimbursed share in common expenses (Note 28)	68,241,053	85,943,421	96,092,860
Depreciation and amortization (Note 16)	22,513,967	20,414,157	18,177,996
Insurance	19,827,030	17,620,267	15,681,448
	3,385,623,257	3,260,732,640	3,664,299,258
OTHER INCOME			
Interest (Note 23)	236,873,016	269,361,029	279,426,867
Gains on:			
Fair value adjustment of investment properties (Note 13)	549,224,660	—	—
Remeasurement arising from business combinations (Note 12)	—	824,431,141	—
Reversal of impairment loss on real estate development project (Note 14)	—	—	181,954,697
Foreign exchange gains - net	6,248,738	880,730	4,081,797
Other income - net (Note 23)	100,235,005	67,975,685	112,392,231
	892,581,419	1,162,648,585	577,855,592
SHARE IN NET INCOME (LOSSES) OF ASSOCIATES AND A JOINT VENTURE (Note 10)	70,658,121	(9,692,903)	(4,674,079)
INTEREST EXPENSE AND BANK CHARGES (Note 23)	201,558,575	227,066,344	184,961,863
INCOME BEFORE INCOME TAX	4,767,165,357	4,114,695,797	3,054,529,656
PROVISION FOR INCOME TAX (Note 29)	1,189,138,629	995,501,739	751,429,724
NET INCOME	3,578,026,728	3,119,194,058	2,303,099,932
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that may be reclassified to profit or loss:			
Change in fair value of available-for-sale financial assets, net of tax effect (Note 15)	1,435,000	350,000	210,000
Translation adjustments	405,500	17,554	556,540
Items that will not be reclassified to profit or loss:			
Remeasurement gains (losses) on defined benefit liability, net of tax effect (Note 27)	(920,032)	(8,756,829)	23,248,589
	920,468	(8,389,275)	24,015,129
TOTAL COMPREHENSIVE INCOME	₱3,578,947,196	P3,110,804,783	P2,327,115,061

(Forward)

	Years Ended December 31		
	2015	2014	2013
Net income attributable to:			
Equity holders of the Parent Company	P2,849,812,817	P2,735,375,946	P2,011,272,641
Non-controlling interests	728,213,911	383,818,112	291,827,291
	P3,578,026,728	P3,119,194,058	P2,303,099,932
Total comprehensive income attributable to:			
Equity holders of the Parent Company	P2,850,733,285	P2,726,986,671	P2,035,287,770
Non-controlling interests	728,213,911	383,818,112	291,827,291
	P3,578,947,196	P3,110,804,783	P2,327,115,061
BASIC AND DILUTED EARNINGS			
PER SHARE (Note 30)			
Based on net income	P0.598	P0.574	P0.422
Based on total comprehensive income	P0.599	P0.573	P0.427

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

FOR THE YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013

	Equity Holders of the Parent Company										
	Other Components of Equity										
	Capital Stock (Note 21)	Additional Paid-in Capital	Treasury Shares (Note 21)	Fair Value of Available-for-Sale Financial Assets (Note 15)	Items that may be Reclassified to Profit or Loss	Item that will		Retained Earnings (Notes 21 and 22)	Subtotal	Total	Non-controlling Interests (NCI) (Note 11)
						Cumulative Changes in	Reclassified to Profit or Loss				
BALANCES AT											
DECEMBER 31, 2014	P4,764,058,982	P834,439,607	(P6,850,064)	P3,412,500	(P393,169)	(P11,065,842)	(P8,046,511)	P18,234,935,332	P23,818,537,346	P3,965,795,878	P27,784,333,224
Total comprehensive income (loss)											
recognized for the year											
Conversion of deposit for future											
stock subscription to preferred											
shares (Note 11)	-	-	-	1,435,000	405,500	(920,032)	920,468	2,849,812,817	2,850,733,285	728,213,911	3,578,947,196
Cash dividends (Notes 11 and 22)	-	-	-	-	-	-	-	-	-	1,959,000,000	1,959,000,000
								(738,097,655)	(738,097,655)	(282,600,000)	(1,020,697,655)
BALANCES AT											
DECEMBER 31, 2015	P4,764,058,982	P834,439,607	(P6,850,064)	P4,847,500	P12,331	(P11,985,874)	(P7,126,043)	P20,346,650,494	P25,931,172,976	P6,370,409,789	P32,301,582,765

See accompanying Notes to Consolidated Financial Statements.

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	Years Ended December 31		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱4,767,165,357	₱4,114,695,797	₱3,054,529,656
Adjustments for:			
Gain on:			
Fair value adjustment of investment properties (Note 13)	(549,224,660)	—	—
Remeasurement arising from business combinations (Note 12)	—	(824,431,141)	—
Reversal of impairment loss on real estate development project (Note 14)	—	—	(181,954,697)
Disposal of investment in associate (Note 23)	—	—	(17,438,767)
Sale of property and equipment (Note 23)	(724,894)	—	(216,983)
Interest income (Note 23)	(236,873,016)	(269,361,029)	(279,426,867)
Interest expense (Note 23)	193,952,916	225,860,264	184,388,327
Share in net losses (income) of associates and joint venture (Note 10)	(70,658,121)	9,692,903	4,674,079
Dividend income (Note 23)	(40,033,691)	(15,234,198)	(18,823,456)
Amortization of discount of deferred lease income (Note 20)	(25,370,048)	(92,979,585)	7,184,470
Depreciation and amortization (Note 16)	22,513,967	20,414,157	18,177,996
Unrealized foreign exchange losses - net	(6,248,738)	(880,730)	(3,525,257)
Fair value adjustment of financial assets at fair value through profit or loss (Note 23)	(1,869,576)	(2,663,820)	1,926,992
Provision for bad debts (Note 25)	—	982,363	—
Operating income before working capital changes	4,052,629,496	3,166,094,981	2,769,495,493
Decrease (increase) in:			
Receivables	1,512,381,838	(390,351,260)	(1,949,033,659)
Properties held for sale	(522,784,687)	(2,844,722,312)	906,915,626
Input tax and other current assets	39,496,497	(469,044,442)	(40,082,817)
Real estate development project	—	—	(21,890,467)
Increase (decrease) in:			
Accounts payable and other current liabilities	709,998,749	1,803,634,063	898,743,103
Deferred lease income	7,885,426	36,941,551	9,314,747
Accrued employee benefits	(20,001,206)	15,762,280	(230,786)
Cash generated from operations	5,779,606,113	1,318,314,861	2,573,231,240
Income taxes paid	(940,563,195)	(745,899,225)	(607,138,948)
Interest received	53,319,202	32,141,486	51,389,706
Net cash provided by operating activities	4,892,362,120	604,557,122	2,017,481,998

(Forward)

	Years Ended December 31		
	2015	2014	2013
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Investments in associates and joint venture (Note 10)	(P10,500,000)	(P15,000,000)	(P6,100,000)
Investment properties (Note 13)	(518,475,727)	(367,641,538)	(1,589,435,591)
Real estate development projects (Notes 12 and 14)	(2,365,633,368)	284,877,078	–
Property and equipment (Note 16)	(92,606,864)	(17,541,185)	(14,766,250)
Other noncurrent assets (Note 17)	5,082,333	(15,931,785)	5,669,539
Dividends received (Note 23)	40,033,691	15,234,198	18,823,456
Proceeds from sale of:			
Property and equipment (Note 23)	724,894	–	567,171
Investment in associate (Note 10)	–	–	92,000,000
Acquisition of a subsidiary, net of cash acquired (Note 12)	–	(1,465,048,492)	–
Net cash used in investing activities	(2,941,375,041)	(1,581,051,724)	(1,493,241,675)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from loan availment, net of debt issue costs (Note 19)	2,211,493,915	3,754,336,434	1,400,000,000
Payments of:			
Loan principal (Note 19)	(1,895,833,333)	(647,619,048)	(952,980,952)
Interest (Note 19)	(177,216,122)	(168,584,440)	(182,181,047)
Cash dividends paid to:			
Stockholders	(750,447,675)	(559,408,273)	(520,922,329)
Non-controlling shareholders of subsidiaries (Note 11)	(226,080,000)	(376,800,000)	(164,850,000)
Increase (decrease) in deposits from tenants	11,012,320	(6,593,557)	183,105,842
Net cash provided by (used in) financing activities	(827,070,895)	1,995,331,116	(237,828,486)
NET EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (Note 5)			
	6,248,738	721,363	4,081,797
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,130,164,922	1,019,557,877	290,493,634
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,911,004,820	1,891,446,943	1,600,953,309
CASH AND CASH EQUIVALENTS AT END OF YEAR	P4,041,169,742	P2,911,004,820	P1,891,446,943

See accompanying Notes to Consolidated Financial Statements.

Notes to Financial Statements

1. Corporate Information and Authorization for Issue of the Consolidated Financial Statements

Corporate Information

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

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

The Parent Company's and Subsidiaries' (collectively referred to as the Group) businesses include property investment and development, real estate management, leasing, mall and carpark operations.

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

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

Acquisition of 20% Equity Interest in Shang Global City Properties, Inc. (SGCPI) and Fort Bonifacio Shangri-la Hotel, Inc. (FBSHI) from a Third Party

On April 30, 2014, the Parent Company, through its wholly owned subsidiaries, Shang Global City Holdings, Inc. (SGCHI) and Shang Fort Bonifacio Holdings, Inc. (SFBHI), acquired additional 20% interest in SGCPI and FBSHI, respectively, which were owned by a third party for a purchase price of P1,700,000,000. Prior to the acquisition, the Group owned 40% equity interest in SGCPI and FBSHI. On December 17, 2014, the SEC approved the merger of SGCPI and FBSHI, with SGCPI as the surviving entity (see Note 12).

Incorporation of The Rise Development Company, Inc. (TRDCI)

In 2013, the Board of KRC (KPPI Realty Corporation) approved the redevelopment of its real estate project (see Note 14). As such, on April 22, 2014, TRDCI was incorporated and registered with the SEC. On the same date, KRC transferred its contractual obligations in The Rise Project located in Makati City to TRDCI. As of December 31, 2015 and 2014, the percentage of completion of the project is 10.00% and 1.88%, respectively.

Authorization for Issue of the Consolidated Financial Statements

The consolidated financial statements have been approved and authorized for issue in accordance with a resolution of the Board of Directors (the Board) on March 4, 2016.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation

The consolidated financial statements have been prepared under the historical cost basis, except for investment properties, financial assets at fair value through profit or loss (FVPL) and available-for-sale (AFS) financial assets that have been measured at fair value. The consolidated financial statements of the Group are presented in Philippine Peso (Peso), which is the Parent Company's functional and presentation currency, with amounts rounded to the nearest Peso.

Statement of Compliance

The consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) as issued by the Financial Reporting Standards Council (FRSC).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and all of its subsidiaries as at December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015.

Subsidiaries are entities over which the Group has control. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. Specifically, the Group controls the subsidiary if and only if the Group has:

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee,
- Rights arising from other contractual arrangements, and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary.
- Derecognizes the carrying amount of any NCI (non-controlling interest).
- Derecognizes the cumulative translation differences recorded in equity.
- Recognizes the fair value of the consideration received.
- Recognizes the fair value of any investment retained.
- Recognizes any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognised in OCI (other comprehensive income) to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the Parent of the Group and to the non-controlling interests, even if this results in the NCI having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies.

The following are the subsidiaries for which the Parent Company acts as the principal decision maker:

	Effective Percentages of Ownership	
	2015	2014
Property Development:		
SPRC	100.00%	100.00%
SPDI	100.00%	100.00%
TRDCI (Note 14)	100.00%	100.00%
SGCPI (Note 12)	60.00%	60.00%
Leasing:		
SPSI (SPI Parking Services, Inc)	100.00%	100.00%
SLPC (Shangri-La Plaza Corporation)	100.00%	100.00%
KSA (KSA Realty Corporation)	52.90%	52.90%
Real Estate:		
IPPI (Ivory Post Properties, Inc)	100.00%	100.00%
KRC	100.00%	100.00%
MBPI (Martin B. Properties, Inc.)	100.00%	100.00%
NCRI (New Contour Realty, Inc.)	100.00%	100.00%
PSI (Perfect Sites, Inc.)	100.00%	100.00%
SFBHI (Shang Fort Bonifacio Holdings, Inc.)	100.00%	100.00%
SGCHI (Shang Global City Holdings, Inc.)	100.00%	100.00%
Property Management:		
KMSC (KPPI Management Services Corporation)	100.00%	100.00%
SPMSI (Shang Property Management Services, Inc.)	100.00%	100.00%
Others:		
Gipsey (BVI Company)	100.00%	100.00%
SHIL (Silver Hero Investment Limited BVI Company)	100.00%	100.00%
ELHI (EPHI Logistics Holdings, Inc.)	60.00%	60.00%

Except for Gipsey and SHIL, which were incorporated in the British Virgin Islands and uses Hong Kong dollars (HKD) as its functional currency, all the other subsidiaries were incorporated in the Philippines which uses Peso as their functional currency.

New and Amended Standards and Interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2015.

The nature and the impact of each new standard and amendment are described below:

- *Amendments to PAS 19, Defined Benefit Plans: Employee Contributions*
PAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after July 1, 2014. This amendment is not relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual Improvements to PFRSs (2010-2012 cycle)

These improvements are effective from July 1, 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. Unless otherwise stated, these amendments have no impact on the Group's consolidated financial statements.

- *PFRS 2, Share-based Payment – Definition of Vesting Condition*
This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:
 - A performance condition must contain a service condition
 - A performance target must be met while the counterparty is rendering service
 - A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
 - A performance condition may be a market or non-market condition
 - If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.
- *PFRS 3, Business Combinations – Accounting for Contingent Consideration in a Business Combination*
The amendment is applied prospectively for business combinations for which the acquisition date is on or after July 1, 2014. It clarifies that a contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PAS 39, *Financial Instruments: Recognition and Measurement* (or PFRS 9, *Financial Instruments*, if early adopted).
- *PFRS 8, Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*
The amendments are applied retrospectively and clarify that:
 - An entity must disclose the judgments made by management in applying the aggregation criteria in the standard, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
 - The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

- *PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Depreciation*
The amendment is applied retrospectively and clarifies in PAS 16 and PAS 38 that the asset may be revalued by reference to the observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. The adoption of this amendment did not have any impact in the Group's consolidated financial statements as the Group's property, plant and equipment and intangible assets are not carried at revalued amounts.
- *PAS 24, Related Party Disclosures – Key Management Personnel*
The amendment is applied retrospectively and clarifies that a management entity, which is an entity that provides key management personnel services, is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual Improvements to PFRSs (2011-2013 cycle)

These improvements are effective from July 1, 2014 and the Group has applied these amendments for the first time in these consolidated financial statements. Unless otherwise stated, these amendments have no impact on the Group's consolidated financial statements. They include:

- *PFRS 3, Business Combinations – Scope Exceptions for Joint Arrangements*
The amendment is applied prospectively and clarifies the following regarding the scope exceptions within PFRS 3:
 - Joint arrangements, not just joint ventures, are outside the scope of PFRS 3.
 - This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.
- *PFRS 13, Fair Value Measurement – Portfolio Exception*
The amendment is applied prospectively and clarifies that the portfolio exception in PFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of PAS 39 (or PFRS 9, if early adopted).
- *PAS 40, Investment Property*
The description of ancillary services in PAS 40 differentiates between the investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that PFRS 3, and not the description of ancillary services in PAS 40, is used to determine if the transaction is the purchase of an asset or business combination. The description of ancillary services in PAS 40 only differentiates between investment property and owner-occupied property (i.e., property, plant and equipment).

Future Changes in Accounting Policies

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

Deferred

- *Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate*
This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11 or involves rendering of services in which case revenue is recognized based on stage of

completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard is issued by the International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed. The Group is currently assessing the impact and plans to adopt this interpretation on the required effective date once adopted locally.

Effective January 1, 2016

- *PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates and Joint Ventures - Investment Entities: Applying the Consolidation Exception (Amendments)*
These amendments clarify that the exemption in PFRS 10 from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity that measures all of its subsidiaries at fair value and that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity parent is consolidated. The amendments also allow an investor (that is not an investment entity and has an investment entity associate or joint venture), when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments are effective for annual periods beginning on or after January 1, 2016. These amendments are not applicable to the Group since the Group does not have investment entity associates or joint venture.
- *PAS 27, Separate Financial Statements – Equity Method in Separate Financial Statements (Amendments)*
The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. The amendments are effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments will not have any impact on the Group's consolidated financial statements.
- *PFRS 11, Joint Arrangements – Accounting for Acquisitions of Interests (Amendments)*
The amendments to PFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant PFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to PFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

- *PAS 1, Presentation of Financial Statements - Disclosure Initiative (Amendments)*
The amendments are intended to assist entities in applying judgment when meeting the presentation and disclosure requirements in PFRS. They clarify the following:
 - That entities shall not reduce the understandability of their financial statements by either obscuring material information with immaterial information; or aggregating material items that have different nature or functions
 - That specific line items in the statement of income and OCI and the statement of financial position may be disaggregated
 - That entities have flexibility as to the order in which they present the notes to financial statements
 - That the share of OCI of associated and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Early application is permitted and entities do not need to disclose that fact as the amendments are considered to be clarifications that do not affect an entity's accounting policies or accounting estimates. The Group is currently assessing the impact of these amendments on its consolidated financial statements.

- *PFRS 14, Regulatory Deferral Accounts*
PFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of PFRS. Entities that adopt PFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. PFRS 14 is effective for annual periods beginning on or after January 1, 2016. Since the Group is an existing PFRS preparer, this standard will not apply.
- *PAS 16, Property, Plant and Equipment, and PAS 41, Agriculture – Bearer Plants (Amendments)*
The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of PAS 41. Instead, PAS 16 will apply. After initial recognition, bearer plants will be measured under PAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of PAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, will apply. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group as the Group does not have any bearer plants.
- *PAS 16, Property, Plant and Equipment, and PAS 38, Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization (Amendments)*
The amendments clarify the principle in PAS 16 and PAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are retrospectively effective for annual periods beginning on or after January 1, 2016, with early adoption

permitted. These amendments are not expected to have any impact to the Group as the Group has not used a revenue-based method to depreciate its non-current assets.

Annual Improvements to PFRSs (2012-2014 cycle)

The Annual Improvements to PFRSs (2012-2014 cycle) which are effective on or after January 1, 2016 are expected to have no impact to the consolidated financial statements of the Group. These include:

- *PFRS 5, Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*
The amendment is applied prospectively and clarifies that changing from a disposal through sale to a disposal through distribution to owners and vice-versa should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in PFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
- *PFRS 7, Financial Instruments: Disclosures – Servicing Contracts*
PFRS 7 requires an entity to provide disclosures for any continuing involvement in a transferred asset that is derecognized in its entirety. The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in PFRS 7 in order to assess whether the disclosures are required. The amendment is to be applied such that the assessment of which servicing contracts constitute continuing involvement will need to be done retrospectively. However, comparative disclosures are not required to be provided for any period beginning before the annual period in which the entity first applies the amendments.
- *PFRS 7 - Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
This amendment is applied retrospectively and clarifies that the disclosures on offsetting of financial assets and financial liabilities are not required in the condensed interim financial report unless they provide a significant update to the information reported in the most recent annual report.
- *PAS 19, Employee Benefits – regional market issue regarding discount rate*
This amendment is applied prospectively and clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- *PAS 34, Interim Financial Reporting – disclosure of information ‘elsewhere in the interim financial report’*
The amendment is applied retrospectively and clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).

Effective January 1, 2018

- *PFRS 9, Financial Instruments*
In July 2014, the IASB issued the final version of PFRS 9, *Financial Instruments*. The new standard (renamed as PFRS 9) reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous

versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of PFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Group did not early adopt PFRS 9.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities.

- *IFRS 15, Revenue from Contracts with Customers*

International Financial Reporting Standard (IFRS) 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date once adopted locally.

- *IFRS 16, Leases*

On January 13, 2016, the IASB issued its new standard, IFRS 16, *Leases*, which replaces International Accounting Standards (IAS) 17, the current leases standard, and the related Interpretations.

Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with IAS 17. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under IAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

The new standard is effective for annual periods beginning on or after January 1, 2019. Entities may early adopt IFRS 16 but only if they have also adopted IFRS 15, *Revenue from Contracts with Customers*. When adopting IFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Group is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date once adopted locally.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any NCI in the acquiree. For each business combination, the Group elects whether to measure the NCI in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

When such an acquisition is not judged to be an acquisition of a business, it is not treated as a business combination. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date. Accordingly, no goodwill or additional deferred tax arises.

If the business combination is achieved in stages, any previously held equity interest is re-measured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39 is measured at fair value with changes in fair value recognized either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not re-measured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for NCI, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the re-assessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current or noncurrent classification.

An asset is current when it is:

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

All other assets are classified as noncurrent.

A liability is current when:

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

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

Fair Value Measurement

The Group measures financial instruments, such as financial assets at FVPL and AFS financial assets and non-financial assets such as investment properties, at fair value at each reporting date. Additional fair value related disclosures including fair values of financial instruments measured at amortized cost are disclosed in Note 34.

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

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

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

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

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

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

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

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

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

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Cash and Cash Equivalents

Cash includes cash on hand and in banks that earn 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.

Financial Instruments

Initial Recognition and Measurement

Financial instruments are recognized initially at fair value, adjusted for directly attributable transaction costs in the case of financial instruments not at FVPL. The Group recognizes a financial instrument in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Classification

Financial assets are classified as financial assets at FVPL, loans and receivables, held to maturity (HTM) financial assets, and AFS financial assets as appropriate. Financial liabilities are classified as financial liabilities at FVPL and other financial liabilities. The Group determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates the designation at each reporting date. As of December 31, 2015 and 2014, the group has no HTM financial assets and financial liabilities at FVPL.

Financial Assets or Liabilities at FVPL

Financial instruments at FVPL include financial assets or liabilities held for trading and those designated upon initial recognition as financial assets or liabilities at FVPL.

Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Dividends, interests and gains or losses on held for trading financial instruments are recognized in the profit or loss.

Financial instruments may be designated at initial recognition as financial assets or liabilities at FVPL when any of the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing the gains or losses on them on a different basis; (ii) the assets or liabilities are part of a group of financial instruments which are managed and their performances are evaluated on fair value basis, in accordance with a documented risk management strategy; or (iii) the financial instrument contains an embedded derivative that would need to be separately recorded.

As of December 31, 2015 and 2014, the Group has investments in shares of stock of various publicly listed companies which are designated as financial assets at FVPL.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate (EIR) method, less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition, and includes fees that are an integral part of the EIR. The EIR amortization is included in interest income in the profit or loss. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized, impaired or amortized.

As of December 31, 2015 and 2014, the Group's loans and receivables consist of cash in banks, cash equivalents, cash in escrow, receivables (except for advances to contractors and suppliers) and refundable deposits.

AFS Financial Assets

AFS financial assets include equity investments. Equity investments classified as AFS are those that are neither classified as held for trading nor designated as at FVPL. Financial assets may be designated at initial recognition as AFS financial assets if they are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

AFS financial assets are carried at fair value in the consolidated statement of financial position. Changes in fair value of such assets are accounted for in OCI in the cumulative changes in fair value of AFS financial assets until the financial assets are derecognized or until they are determined to be impaired. When an AFS financial asset is derecognized or determined to be impaired, the cumulative gains or losses previously recorded in OCI are recognized in profit or loss.

Investments in equity investments that do not have quoted market prices in an active market and whose fair values cannot be reliably measured are carried at their cost, less any impairment in value.

As of December 31, 2015 and 2014, the Group's investment in proprietary club shares and listed and unlisted shares of stock are classified as AFS financial assets.

Other Financial Liabilities

This category pertains to financial liabilities that are not held for trading nor designated as financial liabilities at FVPL upon inception of the liability.

Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. After initial recognition, other financial liabilities are carried at amortized cost using the EIR method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in profit or loss when the liabilities are derecognized or amortized.

As of December 31, 2015 and 2014, the Group's other financial liabilities include accounts payable and other current liabilities (except for advanced rentals, customers' deposits, reservation payables, output value added tax (VAT), deferred output VAT and withholding taxes), bank loans, deposits from tenants and accrued employee benefits (excluding defined benefit liability).

Determination of Fair Value

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments and all other financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include using arm's-length market transactions; reference to the current market value of another instrument, which is substantially the same; and discounted cash flow (DCF) analysis and other valuation models. If the fair value cannot be measured reliably, the financial instruments are measured at cost, being the fair value of the consideration paid, in case of an asset, and received, in case of a liability. All transaction costs directly attributable to the acquisition are also included in the cost of investment.

Day 1 Difference

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

Offsetting

A financial asset and a financial liability are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts, and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreement, and the related assets and liabilities are presented gross in the consolidated statement of financial position.

Impairment of Financial Assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

a. Financial Assets Carried at Amortized Cost

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial

assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the profit or loss. Interest income (recorded as finance income in the profit or loss) continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the profit or loss.

b. AFS Financial Assets

For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss, is removed from OCI and recognized in the profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognized in OCI.

The determination of what is 'significant' or 'prolong' requires judgment. In making this judgment, the group evaluates, among other factors, the duration or event to which the fair value of an investment is less than its cost.

c. Financial Assets Carried at Cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Derecognition

a. Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e. removed from the Group's consolidated statement of financial position) when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

b. Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires. 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 an exchange or modification is treated as a derecognition of an original liability and a recognition of a new liability. The difference in the respective carrying amounts is recognized in the profit or loss.

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.

Condominium Units Held for Sale

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.

Construction in Progress

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

Other Current Assets

Prepaid Commission and Expenses

Prepaid commission and expenses include expenditures already paid but not yet incurred and from which future economic benefits are expected to flow to the Group within the normal operating cycle. These are measured at cost less allowance for impairment losses, if any.

Creditable Withholding Tax (CWT)

CWT represents taxes withheld for goods and services provided. CWTs can be claimed as credit against income tax due.

Investments in Associates and Joint Venture

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

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

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

The Group's investments in its associate and joint venture are accounted for using the equity method.

On acquisition of the investment, any difference between the cost of the investment and the investor's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for as follows:

- a. Goodwill relating to an associate is included in the carrying amount of the investment. However, amortization of that goodwill is not permitted and is therefore not included in the determination of the Group's share in the associate's profits or losses.
- b. Any excess of the Group's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the Group's share in the associate's profit or loss in the period in which the investment is acquired.

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not individually tested for impairment.

The profit or loss reflects the Group's share of the results of operations of the associate or a joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or a joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or a joint venture.

The aggregate of the Group's share in net profit or loss of an associate or a joint venture is reported on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax and NCI in the subsidiaries of the associate or a joint venture. If the Group's share of losses of an associate equals or exceeds its interest in the associate or a joint venture, the Group discontinues recognizing its share of further losses.

The financial statements of the associate or a joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or a joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or a joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognizes the loss as 'Share in net profit (loss) of an associate and a joint venture' in the profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or a joint venture upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in the profit or loss.

Investment Properties

Investment properties consist of land and buildings that are held for long-term rental yields or for capital appreciation or both, and that are not owner-occupied by the companies in the Group.

Investment properties are measured initially at their costs, including related transaction costs. The cost of a purchased investment property comprises of its purchase price and any directly attributable costs. Transaction costs include transfer taxes, professional fees and other costs necessary to bring the investment properties to the condition necessary for them to be capable of being used.

After initial recognition, investment properties are carried at fair value which reflects market conditions at the reporting date. Gains or losses arising from changes in fair value are recorded in profit or loss in the year in which they arise including the corresponding tax effect. Fair value is based in an annual evaluation performed by an accredited external independent valuer, applying a valuation model recommended by the International Valuation Standards Committee.

An 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.

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

Investment properties are derecognized when they are disposed of or permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the profit or loss. Gain or loss on disposal of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset at the date of disposal.

Transfers are made to (or from) investment properties when, and only when, there is a change in use, evidenced by the ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investment properties when, and only when, there is a change in use, evidenced by the commencement of owner-occupation or commencement of development with a view to sell.

When the Group completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognized in profit or loss. If a land or building and building improvement classified as "Property and equipment" becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use. For transfer from investment property carried at fair value to property and equipment or construction in progress, the investment property's deemed cost shall be its fair value at the date of change in use.

Real Estate Development Projects

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

Upon completion of the properties, certain portion of the real estate are accounted for as investment properties if the planned purpose of these properties meet the definition of investment properties.

Upon completion of the properties which are pre-determined for self-use purpose, the properties are classified as 'Property and equipment'.

Upon the completion of the properties which are pre-determined for sale purpose, the properties are classified as 'Properties held for sale' in current assets.

Property and Equipment

Property and equipment is stated at cost, net of accumulated depreciation and amortization, and accumulated impairment losses, if any.

The initial costs of property and equipment consist of their purchase prices and any directly attributable costs of bringing the assets to their working condition and location for their intended use. Expenditures incurred after the property and equipment have been put into operation, such as repair and maintenance costs, are recognized in profit or loss in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

Depreciation and amortization commence once the assets are available for use and are provided on all property and equipment at rates calculated to write off the costs, less estimated residual values based on prices prevailing at the reporting date, of each asset evenly over its expected useful life as follows:

Category	Useful Lives in Years
Building improvements	25
Transportation equipment	2 to 5
Furniture, fixtures and other equipment	2 to 4

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. The Group uses straight-line method as the basis of depreciation to systematically allocate the cost of the assets over the following estimated useful lives.

The assets' estimated useful lives (EUL), and depreciation and amortization method are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from the items of property and equipment. The assets' estimated residual values are reviewed periodically and adjusted if appropriate.

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 profit or loss.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss when the asset is derecognized.

Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that the nonfinancial assets consisting of investments in associates and joint venture, real estate development projects, property and equipment and goodwill may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs for disposing of the asset. Impairment losses, if any, are recognized in profit or loss in those expense categories consistent with the function of the impaired assets.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognized in the statement of income in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognized in OCI up to the amount of any previous revaluation.

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

The following criteria are also applied in assessing impairment of specific assets:

Investments in Associates and Joint Venture

After application of the equity method, the Group determines whether it is necessary to recognize impairment loss on the Group's investments in associates and joint venture. The Group determines at each reporting date whether there is objective evidence that an investment is impaired. If that is the case, the Group calculates the amount of impairment as the difference between the fair value of the investee company and the carrying value of the investment. The difference is recognized in profit or loss.

Goodwill

Impairment testing for goodwill is performed annually and when circumstances indicate that its carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU or group of CGUs to which goodwill has been allocated is less than its carrying amount, an impairment loss is recognized in the profit or loss. Impairment losses relating to goodwill cannot be reversed in future periods.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the asset. Other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Deposits from Tenants

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

Refundable Deposits

Refundable deposits represent cash received from customers for rent and utilities which are expected to be returned after a specified period of time, or when certain conditions are satisfied.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provision is determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in provision due to passage of time is recognized as interest expense. When the Group expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in profit or loss, net of any reimbursement.

Equity

Capital Stock and Additional Paid-in Capital (APIC)

Capital stock is measured at par value for all shares issued. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to the “APIC” account. When shares are issued for a consideration other than cash, the proceeds are measured at the fair value of consideration received. In case the shares are issued to extinguish or settle a liability of the Parent Company, the shares are measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Treasury Shares

Own equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Group’s own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is also recognized in the APIC. When the shares are retired, the capital stock account is reduced by its par value and the excess of cost over par value, upon retirement, is charged to APIC when the shares are issued.

Other Components of Equity

These are recorded for items that are directly recognized in equity, which include cumulative changes in fair value of AFS financial assets, cumulative translation adjustments and remeasurement gains (losses) on defined benefit liability. They are measured either at gross amount or net of tax effect depending on the tax laws and regulations that apply.

Other components of equity are derecognized when the related asset or liability where they arise are derecognized.

Retained Earnings

Retained earnings include cumulative profits attributable to the Parent Company’s stockholders, and reduced by dividends. Retained earnings also include effect of changes in accounting policies as may be required by the standards’ transitional provisions.

Dividend Distribution

The Group recognizes a liability to make cash distributions to equity holders of the Parent Company when the distribution is authorized and the distribution is no longer at the discretion of the Group. As per the corporate laws in the Philippines, a distribution is authorized when it is declared by the Board. A corresponding amount is recognized directly in equity.

Revenue and Cost/Expense Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue and expense can be reliably measured, regardless of when the collection or payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duties.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or as an agent. The Group has concluded that it is acting as the principal in all of its major revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to properties held for sale and credit risks.

The following specific recognition criteria must also be met before revenue and expenses are recognized:

Condominium Sales

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

Revenue from condominium sales is accounted for using the full accrual method. In accordance with Philippine Interpretations Committee Q&A No. 2006-01, the percentage of completion (POC) method is used to recognize income from condominium sales where the Group has material obligations under the sales contract to complete the real estate project after the unit is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the estimated completion of a physical proportion of the contract work.

Any excess of collections over the recognized revenue are included in the "Customers' deposits" account in the consolidated statement of financial position. If the revenue recognition criteria under the full accrual or POC method are not met, the deposit method is applied until all the conditions for recognizing sales are met. Until revenue from condominium sales is recognized, cash received from customers are recognized also as part of "Customers' deposits."

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works.

The cost of condominium sales recognized in profit or loss on their disposal is determined with reference to the specific cost incurred on the property, allocated to saleable area based on relative size and takes into account the POC used for revenue recognition purposes.

Estimated loss on unsold units is recognized in profit or loss immediately when it is probable that total project costs will exceed total contract revenue.

Rental

Rental revenues from the leasing of properties held under operating lease are recognized on a straight-line basis over the periods of the respective leases or on a certain percentage of gross revenue of the lessees, whichever is appropriate.

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

Interest Income

Interest income is recognized as it accrues, taking into account the effective yield on the asset. Interest income from accretion of installment contracts receivable is recognized using the EIR method.

Dividend Income

Revenue is recognized when the Group's right to receive the payment is established, which is generally when the Board of the investee company approved the dividend.

Other Service Income

Administration and management services, customer lounge fees, banner income, income from cinema operations and other service income are recognized when the related services have been rendered. Revenues from auxiliary services such as handling, sale of scrap materials, import break bulk and brokerage are recognized when services are provided or when goods are delivered. Money received or amounts billed in advance for rendering of services or delivery of goods are recorded as unearned income until the earning process is complete.

Commission Expense

Commissions paid to sales and marketing agents on the sale of pre-completed units are deferred when recoveries are reasonably expected and are charged to expense in the period in which the related revenues are recognized as earned. Accordingly, when the POC method is used, commissions are likewise charged to expense in the period the related revenues are recognized.

General and Administrative Expenses

General and administrative expenses are recognized as incurred.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. a renewal option is exercised or extension is granted, unless that term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- d. there is a substantial change to the asset.

When a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances give rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Group as the Lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the rental receivables or customers' deposits and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Employee Benefits

Retirement Benefits

The net defined benefit liability or asset is the aggregate of the present value of defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling.

The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- service cost,
- net interest on the net defined benefit liability or asset, and
- remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a pre-tax discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of plan assets is higher than the present value of defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditures required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination Benefits

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and an expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the benefit and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefit are measured in accordance with the nature of the employee benefit, as either post-employment benefit, short-term employee benefit, or other long-term employee benefit. Benefits falling due more than twelve months from the reporting date are discounted to their present values.

Employee Leave Entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period. The liability for leave expected to be settled more than twelve months after the end of the annual reporting period are discounted to its present value.

Foreign Currencies

The Group's consolidated financial statements are presented in Peso, which is also the Parent Company's functional currency. For each entity, the Group determines their functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and has elected to recycle the gains or losses that arise from using this method.

Transactions and Balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively).

Group Companies

On consolidation, the assets and liabilities of GipseY and SHIL, foreign subsidiaries with functional and presentation currency of Hong Kong Dollar (HK\$), are translated into Peso at the rate of exchange prevailing at the reporting date and their income statements are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for

consolidation are recognized in OCI. On disposal of a foreign subsidiary, the component of OCI relating to that particular foreign subsidiary is recognized in profit or loss.

Income Tax

Current Tax

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

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

Deferred Tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates and interest in joint arrangements, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates and interest in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside the consolidated statement of income is recognized outside the consolidated statement of income. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority. Subsidiaries operating in the Philippines file income tax return on an individual basis. Thus, the deferred tax assets and deferred tax liabilities are offset on a per entity basis.

VAT

Revenue, expenses, assets and liabilities are recognized net of the amount of VAT, except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the tax authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, the tax authority is included as part of “Input tax and other current assets” or “Accounts payable and other current liabilities” accounts, respectively, in the consolidated statements of financial position.

Earnings Per Share

Earnings per share is computed by dividing the total comprehensive income and net income attributable to equity holders of the Parent Company for the year by the weighted average number of shares outstanding during the year adjusted to give retroactive effect to any stock dividends declared during the year.

Basic earnings per share is calculated by dividing the total comprehensive income and net income attributable to equity holders of the Parent Company for the year by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is computed by dividing the adjusted total comprehensive income and net income attributable to equity holders of the Parent Company for the year by the weighted average number of shares taking into account the effects of all potential dilutive common shares.

Segment Reporting

For management purposes, the Group is organized and managed separately according to the nature of the business. These operating businesses are the basis upon which the Group reports its segment information presented in Note 4 to the consolidated financial statements.

An operating segment is a component of an entity:

- a. that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
- b. with operating results regularly reviewed by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance; and
- c. for which discrete financial information is available.

Contingencies

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

Events after the Reporting Date

Any post year-end event that provides additional information about the Group's financial position at the reporting date (adjusting event) is reflected in the consolidated financial statements. Post year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the consolidated financial statements based on evaluation of relevant facts and circumstances at the reporting date. Future events may occur which can cause the assumptions used in arriving at those judgments and estimates to change. The effects of any changes will be reflected in the consolidated financial statements as they become reasonably determinable.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on amounts recognized in the consolidated financial statements:

Valuation of Investment Properties

The Group carries its investment properties at fair value, with changes in fair value being recognised in the statement of profit or loss. The Group's financial controller and the managers of each property determine the policies and procedures for the fair value measurement of the investment properties. External valuers are involved in the valuation of investment properties as decided annually by the Group. The selection criteria for the external valuers include market knowledge, reputation, independence and whether professional standards are maintained.

At each reporting date, the Group analyzes the movements in the values of investment properties which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the Group verifies the major inputs by agreeing the information in the valuation computation to contracts and other relevant documents.

Based on the analysis performed by management, the Group has concluded that the fair value adjustment in 2014 and 2013 is insignificant. In 2015, the management determined the fair value adjustment to be significant and reflect the current economic condition. The key assumptions used to determine the fair value of the properties and sensitivity analyses are provided in Note 13.

Distinction between Properties Held For Sale, Investment Properties and Property and Equipment

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

- Properties held for sale comprise properties that are held for sale in the ordinary course of business. These are condominium units that the Group developed or is developing and intends to sell.
- Investment properties comprise land and buildings, which are not occupied substantially for use in the operations nor for sale in the ordinary course of business of the Group, but are held primarily to earn rental income or capital appreciation.

The Group determines whether a property qualifies as an investment property or an item of property and equipment. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by the Group. Property and equipment generate cash flows that are attributable not only to them but also to the other assets used in the operations of the Group.

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

The carrying values of properties held for sale, investment properties, and property and equipment as of December 31, 2015 and 2014 are disclosed in Notes 8, 13 and 16, respectively.

Assessing Significant Influence over Associates

The Group determined that it exercises significant influence over all its associates by considering, among others, its ownership interest (holding 20% or more than of the voting power in the investee), representation on the board of directors and participation in policy-making processes of the associates, and other contractual terms.

Classification of joint arrangements

The Group's investment in joint venture is structured in separate incorporated entities. The joint arrangement agreements require unanimous consent from all parties to the agreement for the relevant activities identified. The Group and the parties to the agreement only have rights to the net assets of the joint venture through the terms of the contractual arrangements.

Property Acquisition and Business Combination

The Group acquires real estate properties. At the time of acquisition, the Group considers whether the acquisition represents an acquisition of a business or a group of assets and liabilities. The Group accounts for an acquisition as a business combination if it acquires an integrated set of business processes in addition to the real estate property. The consideration is made to the extent that the significant business processes are acquired and the additional services to be provided by the subsidiary.

When the acquisition of subsidiary does not constitute a business, it is accounted for as an acquisition of a group of assets and liabilities. The purchase price of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values at the date of acquisition, no goodwill or deferred tax is recognized.

In 2014, the Group accounted for the acquisition of the 20% equity interest of Alphaland Development, Inc. (Alphaland) in SGCPI and FBSHI as a business combination achieved in stages (see Note 12).

Classification of Leases as Operating Lease

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

The carrying values of investment properties as of December 31, 2015 and 2014 are disclosed in Note 13.

Impairment of AFS Equity Financial Assets

The Group treats AFS equity financial assets as impaired when there has been a significant or prolonged decline in the fair value below its cost or whether other objective evidence of impairment exists. The determination of what is “significant” and “prolonged” requires judgment. The Group generally treats a decline of 20% or more of the original cost as “significant” and a period greater than six months as “prolonged”. In addition, the Group evaluates other factors including normal volatility in share prices for quoted securities, future cash flows and discount factors for unquoted securities.

The carrying values of AFS equity financial assets are disclosed in Note 15. Based on management’s assessment, there has been no significant or prolonged decline in the fair value of AFS equity financial assets, thus, no impairment loss was recognized in 2015, 2014 and 2013.

Determination of the Functional Currency

Based on the economic substance of the underlying circumstances relevant to the Parent Company, management determined its functional currency to be the Peso. It is the currency that mainly influences the revenues, and costs and expenses of the Group.

Classification of Financial Instruments

The Group classifies a financial instrument, or its component, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of financial asset, financial liability and equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statement of financial position.

Financial assets are classified as financial assets at FVPL, loans and receivables, HTM and AFS financial assets. Financial liabilities, on the other hand, are classified as financial liabilities at FVPL and other financial liabilities. The Group determines the classification at initial recognition and re-evaluates the classification at every reporting date.

Revenue Recognition

Selecting an appropriate revenue recognition method for a particular real estate sale transaction requires certain judgments based on the buyer’s commitment on the sale which may be ascertained through the significance of the buyer’s initial investment and completion of development. The buyer’s commitment is evaluated based on collections, credit standing and location of the property. Completion of development is determined based on engineer’s judgments and estimates on the physical portion of contract work done and the completion of development beyond the preliminary stage.

Condominium sales recognized in 2015, 2014 and 2013 are reflected in the consolidated statement of comprehensive income.

Contingencies

The Group is currently involved in various legal proceedings. The estimates of the probable costs for the resolution of these claims have been developed in consultation with the outside legal counsel handling the defense in these matters and are based upon analyses of potential reports. Based on management's assessment, these proceedings will not have a material effect on the Group's financial position and performance (see Note 32).

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities are as follows:

Purchase Price Allocation in Business Combination.

The acquisition method requires extensive use of accounting estimates and judgments to allocate the purchase price to the fair market values of the acquiree's identifiable assets and liabilities at acquisition date. It also requires the acquirer to recognize goodwill. On April 30, 2014, the Group acquired the 20% equity interest of Alphaland in SGCP and FBSH. The Group recognized goodwill from the business combination as disclosed in Notes 12.

Valuation of Financial Instruments

Financial instruments carried at fair values require the use of accounting estimates. While significant components of fair value measurement are determined using verifiable objective evidence, it would differ if the Group utilizes a different valuation methodology. Any changes in the fair values of financial instruments will affect profit or loss and equity.

The fair values of financial instruments on initial recognition are normally the transaction prices. These prices are indicative of actual and regularly occurring market transactions on an arm's length basis.

The fair values of the Group's financial assets at FVPL and AFS financial assets traded in active markets are based on quoted market prices at the reporting date. The quoted market prices used for financial assets held for trading are the current bid prices. The Group's installment contracts receivable's and deposits from tenants' fair values are based on the present values of estimated future cash flows discounted using prevailing pre-tax discount rates at the reporting date. The fair values of the other financial instruments are estimated by discounting the future contractual cash flows at the current market interest rates that are available to the Group at the reporting date for similar financial instruments. The fair value measurement hierarchy of the Group's financial instruments is disclosed in Note 34.

Estimation of Allowance for Impairment of Receivables

The Group maintains an allowance for impairment of receivables at a level considered adequate to provide for potentially uncollectible receivables. The level of this allowance is evaluated by management on the basis of the factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customer, the customer's payment behavior and known market factors. The Group reviews the age and status of receivables, and identifies accounts that are to be provided with allowance on a continuous basis.

Bad debts recognized in 2015, 2014 and 2013 are disclosed in Note 25. The carrying values of the Group's receivables and allowance for impairment of receivable as of December 31, 2015 and 2014 are disclosed in Note 7.

Estimation of POC of the Projects

The Group's revenue and cost recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenue and costs. The Group's revenue from condominium sales, recognized based on the POC, are measured principally on the basis of the actual costs incurred to date over the total estimated project costs and by reference to the estimated completion of a physical proportion of the contract work. The total project costs are estimated by the Group's technical staff and are independently reviewed by the Group's third party consultants. At each reporting date, these estimates are reviewed and revised to reflect the current conditions, when necessary.

OSP is 99% and 88% complete as of December 31, 2015 and 2014, respectively. SSP is 53% and 28% complete as of December 31, 2015 and 2014, respectively. The Rise is 10% and 1.88% complete as of December 31, 2015 and 2014, respectively. Shangri-La at the Fort is 70% and 54.73% complete as of December 31, 2015 and 2014, respectively.

Estimation of NRV

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

As of December 31, 2015 and 2014, carrying values of the Group's properties held for sale are disclosed in Note 8.

Determination of Fair Values of Investment Properties

The fair values of investment properties are determined by independent real estate valuation experts using recognized valuation techniques. The fair value of the Group's land is determined using the market comparison method. Under the market comparison method (or market comparison approach), a property's fair value is estimated based on comparable transactions. The market comparison approach is based upon the principle of substitution under which a potential buyer will not pay more for the property than it will cost to buy a comparable substitute property. In theory, the best comparable sale would be an exact duplicate of the subject property and would indicate, by the known selling price of the duplicate, the price for which the subject property could be sold. The unit of comparison applied by the Group is the price per square meter (sqm). The market comparison approach is often used in combination with either DCF or the income capitalization method as many inputs to these methods are based on market comparison. Under the direct income capitalization method, a property's fair value is estimated based on stabilized net operating income divided by an appropriate capitalization rate. In some cases, fair values are determined based on recent real estate transactions with similar characteristics and in the location to those of the Group's assets. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgment, the Group considers information from variety of sources including:

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

The significant methods and assumptions used by the valuers in estimating fair values of investment properties are set out in Note 13. The fair values, which are also the carrying values of investment properties as of December 31, 2015 and 2014 are disclosed in Note 13.

EUL of Property and Equipment

The Group estimates the EUL of property and equipment based on the internal technical evaluation and experience with similar assets. EUL of property and equipment are reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and other limits on the use of property and equipment. There were no changes in EUL of the Group's property and equipment. As of December 31, 2015 and 2014, the carrying values of property and equipment are disclosed in Note 16.

Impairment of Nonfinancial Assets, Including Goodwill

The Group assesses whether there are any indicators of impairment for all nonfinancial assets at every reporting date. Nonfinancial assets with indefinite life such as goodwill are tested for impairment annually and at other times when impairment indicators exist. Other nonfinancial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

If any such indication exists or in case of nonfinancial assets with indefinite life, the recoverable amount of the asset is estimated. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The value in use calculation is based on a direct income capitalization model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the direct income capitalization model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. Recoverable amount is estimated for an individual asset or, if it is not possible, for the CGU to which the asset belongs.

As of December 31, 2015 and 2014, based on management's assessment, there are no indications of impairment for the rest of the Group's nonfinancial assets composed of properties held for sale, input tax and other current assets, investment in associates, investment properties, real estate development projects, property and equipment and goodwill.

The key assumptions used to determine the recoverable amount for the goodwill and project of KRC are disclosed in Note 12.

Estimation of Retirement Benefit Costs

The cost of defined benefit plan as well as the present value of defined benefit obligation is determined using actuarial valuations. Actuarial valuations involve making various assumptions that may differ from actual developments in the future. These include the determination of the discount rates, future salary increases, mortality rates and future retirement increases. Due to the complexity of the valuations, the underlying assumptions and the long-term nature, defined benefit obligation is

highly sensitive to changes in the assumptions. All assumptions are reviewed at each reporting date. The net defined benefit liability as of December 31, 2015 and 2014 are disclosed in Note 27.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables and is modified accordingly with estimates of mortality improvements. Future salary increases and retirement increases are based on expected future inflation rates.

Further details about the assumptions used are provided in Note 27.

Realizability of Deferred Tax Assets

The Group reviews the carrying amounts of deferred tax assets (DTA) at each reporting date and reduces them to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred tax assets to be utilized. The Group expects to generate sufficient future taxable profits to allow its recognized deferred income tax assets to be utilized. Deferred tax assets recognized and unrecognized as of December 31, 2015 and 2014 are disclosed in Note 29.

4. Segment Information

The Group's operating businesses are organized and managed according to the nature of the products and services marketed, with each segment representing a strategic business unit that offers different products and serves different markets. The Group has operations only in the Philippines. The Group derives revenues from two main segments as follows:

Property Development

This business segment pertains to the sale of condominium units.

Leasing

This business segment pertains to the leasing operations of the Shangri-La Plaza Mall, The Enterprise Center (TEC) and their related carpark operations. It also includes leasing of a portion of the Parent Company's land to EDSA Shangri-La Hotel and Resort, Inc. (ESHRI).

Other business segments pertain to property management services and the results of operations of real estate entities and BVI companies.

Except for the rental revenue from ESHRI, revenues come from transactions with third parties.

There is no transaction with a single external customer that amounts to 10% or more of the Group's aggregate revenues.

The segment assets, liabilities and results of operations of the reportable segments of the Group as of and for the year ended December 31, 2015 are as follows:

	Property Development	Leasing	Others	Total Segments	Eliminations	Consolidated
Revenues:						
Condominium sales	¥4,654,102,798	¥-	¥-	¥4,654,102,798	¥-	¥4,654,102,798
Rental	-	2,911,215,660	-	2,911,215,660	(234,892,595)	2,676,323,065
Cinema	-	60,681,786	-	60,681,786	-	60,681,786
Cost of condominium sales	(2,374,666,153)	-	-	(2,374,666,153)	-	(2,374,666,153)
Gross profit	2,279,436,645	2,971,897,446	-	5,251,334,091	(234,892,595)	5,016,441,496
Gain on fair value adjustments of investment properties	-	299,757,821	249,466,839	549,224,660	-	549,224,660
Other income	69,526,198	26,810,620	59,444,643	155,781,461	(55,546,456)	100,235,005
Staff costs	(285,092,535)	(225,602,477)	(11,816,126)	(522,511,138)	63,039,331	(459,471,807)
General and administrative expenses	(127,598,296)	(334,463,999)	(2,257,434)	(464,319,729)	243,225,706	(221,094,023)
Taxes and licenses	(85,457,549)	(133,361,818)	(989,857)	(219,809,224)	-	(219,809,224)
Unreimbursed share in common expenses	-	(64,193,656)	-	(64,193,656)	(4,047,397)	(68,241,053)
Depreciation and amortization	(5,051,050)	(17,311,634)	(151,283)	(22,513,967)	-	(22,513,967)
Insurance	(348,295)	(19,467,868)	(10,867)	(19,827,030)	-	(19,827,030)
Segment results	1,845,415,118	2,504,064,435	293,685,915	4,643,165,468	11,778,589	4,654,944,057
Interest income	210,470,968	26,010,082	391,966	236,873,016	-	236,873,016
Foreign exchange gains – net	5,431,079	798,303	(109,869,320)	(103,639,938)	109,888,676	6,248,738
Share in net income of associates and joint venture	-	-	70,658,121	70,658,121	-	70,658,121
Interest expense and bank charges	(797,015)	(200,757,934)	(3,626)	(201,558,575)	-	(201,558,575)
Provision for income tax	(629,243,141)	(481,766,268)	(78,129,220)	(1,189,138,629)	-	(1,189,138,629)
Net income for the year	¥1,431,277,009	¥1,848,348,618	¥176,733,836	¥3,456,359,463	¥121,667,265	¥3,578,026,728
Segment assets	¥26,642,260,281	¥28,913,601,837	¥4,924,138,923	¥60,480,001,041	(¥1,679,259,570)	¥58,800,741,471
Associate companies	-	7,886,154,233	1,599,661,363	9,485,815,596	(8,993,867,246)	491,948,350
Total assets	¥26,642,260,281	¥36,799,756,070	¥6,523,800,286	¥69,965,816,637	(¥10,673,126,816)	¥59,292,689,821
Segment liabilities	¥17,519,174,720	¥11,067,435,865	¥5,174,985,209	¥33,761,595,794	(¥6,770,488,738)	¥26,991,107,056
Capital expenditures for the year	¥81,491,637	¥333,925,551	¥113,933	¥415,531,121	¥195,551,469	¥611,082,590

The segment assets, liabilities and results of operations of the reportable segments of the Group as of and for the year ended December 31, 2014 are as follows:

	Property Development	Leasing	Others	Total Segments	Eliminations	Consolidated
Revenues:						
Condominium sales	P3,764,277,893	P-	P-	P3,764,277,893	P-	P3,764,277,893
Rental	-	2,859,846,490	-	2,859,846,490	(234,952,844)	2,624,893,646
Cinema	-	60,367,560	-	60,367,560	-	60,367,560
Cost of condominium sales	(2,442,444,122)	-	-	(2,442,444,122)	-	(2,442,444,122)
Gross profit	1,321,833,771	2,920,214,050	-	4,242,047,821	(234,952,844)	4,007,094,977
Other income	54,802,220	22,905,278	870,245,781	947,953,279	(55,546,454)	892,406,825
Staff costs	(186,632,688)	(208,960,295)	47,259,488	(348,333,495)	52,794,352	(295,539,143)
General and administrative expenses	(75,981,444)	(112,546,749)	(4,081,096)	(192,609,289)	(715,398)	(193,324,687)
Taxes and licenses	(62,360,811)	(153,852,189)	10,766,158	(205,446,842)	-	(205,446,842)
Unreimbursed share in common expenses	-	(82,478,033)	-	(82,478,033)	(3,465,388)	(85,943,421)
Depreciation and amortization	(3,096,050)	(17,149,771)	(168,336)	(20,414,157)	-	(20,414,157)
Insurance	(245,975)	(17,278,530)	(95,762)	(17,620,267)	-	(17,620,267)
Segment results	1,048,319,023	2,350,853,761	923,926,233	4,323,099,017	(241,885,732)	4,081,213,285
Interest income	248,906,607	20,273,985	180,437	269,361,029	-	269,361,029
Foreign exchange gains - net	384,872	493,969	(24,449,955)	(23,571,114)	24,451,844	880,730
Share in net losses of associates	-	-	(9,692,903)	(9,692,903)	-	(9,692,903)
Interest expense and bank charges	(1,077,448)	(225,974,531)	(14,365)	(227,066,344)	-	(227,066,344)
Provision for income tax	(425,532,864)	(367,676,454)	(202,292,421)	(995,501,739)	-	(995,501,739)
Net income for the year	P871,000,190	P1,777,970,730	P687,657,026	P3,336,627,946	(P217,433,888)	P3,119,194,058
Segment assets	P33,821,813,379	P23,502,537,637	P6,366,625,171	P63,690,976,187	(P9,419,643,526)	P54,271,332,661
Associate companies	-	-	410,790,229	410,790,229	-	410,790,229
Total assets	P33,821,813,379	P23,502,537,637	P6,777,415,400	P64,101,766,416	(P9,419,643,526)	P54,682,122,890
Segment liabilities	P19,605,625,096	P12,198,862,918	P5,138,635,900	P36,943,123,914	(P10,045,334,248)	P26,897,789,666
Capital expenditures for the year	P3,429,204	P183,315,521	P337,114	P187,081,839	(P21,398,562)	P165,683,277

The segment assets, liabilities and results of operations of the reportable segments of the Group as of and for the year ended December 31, 2013 are as follows:

	Property Development	Leasing	Others	Total Segments	Eliminations	Consolidated
Revenues:						
Condominium sales	P3,935,170,304	P-	P-	P3,935,170,304	P-	P3,935,170,304
Rental	-	2,545,947,448	-	2,545,947,448	(206,957,297)	2,338,990,151
Cinema	-	56,448,809	-	56,448,809	-	56,448,809
Cost of condominium sales	(2,991,014,104)	-	-	(2,991,014,104)	-	(2,991,014,104)
Gross profit	944,156,200	2,602,396,257	-	3,546,552,457	(206,957,297)	3,339,595,160
Loss on sale of investment property	-	(317,379,436)	-	(317,379,436)	317,379,436	-
Other income	17,082,931	660,350,121	-	903,591,334	(791,199,103)	112,392,231
Staff costs	(60,238,037)	(175,664,382)	226,158,282	(243,885,211)	2,549,103	(241,336,108)
General and administrative expenses	(46,703,519)	(310,203,499)	(7,982,792)	(363,890,625)	206,957,297	(156,933,328)
Taxes and licenses	(17,850,490)	(126,481,041)	(731,883)	(145,063,414)	-	(145,063,414)
Unreimbursed share in common expenses	-	(96,092,860)	-	(96,092,860)	-	(96,092,860)
Depreciation and amortization	(1,493,164)	(16,583,461)	(101,371)	(18,177,996)	-	(18,177,996)
Insurance	(150,055)	(15,514,061)	(17,332)	(15,681,448)	-	(15,681,448)
Segment results	834,803,866	2,204,827,638	210,341,297	3,249,972,801	(471,270,564)	2,778,702,237
Interest income	244,513,058	34,661,209	252,600	279,426,867	-	279,426,867
Gain on reversal of impairment loss on real estate development project	-	-	181,954,697	181,954,697	-	181,954,697
Foreign exchange gains - net	2,418,763	1,650,275	(183,766,374)	(179,697,336)	183,779,133	4,081,797
Share in net losses of associates	-	-	(4,674,079)	(4,674,079)	-	(4,674,079)
Interest expense and bank charges	(539,675)	(184,386,995)	(35,193)	(184,961,863)	-	(184,961,863)
Provision for income tax	(448,239,506)	(252,262,230)	(50,927,988)	(751,429,724)	-	(751,429,724)
Net income for the year	P632,956,506	P1,804,489,897	P153,144,960	P2,590,591,363	(P287,491,431)	P2,303,099,932
Segment assets	P9,711,851,940	P27,514,160,619	P4,099,459,524	P41,325,472,083	(P4,721,463,228)	P36,604,008,855
Associate companies	-	1,959,387,171	481,923,118	2,441,310,289	-	2,441,310,289
Total assets	P9,711,851,940	P29,473,547,790	4,581,382,642	P43,766,782,372	(P4,721,463,228)	P39,045,319,144
Segment liabilities	P6,496,411,518	P9,144,810,490	P3,334,768,995	P18,975,991,003	(P4,721,463,228)	P14,254,527,775
Capital expenditures for the year	P253,223,655	P513,510,669	P258,705	P766,993,029	P-	P766,993,029

5. Cash and Cash Equivalents

This account consists of:

	2015	2014
Cash on hand and in banks	P343,622,081	P404,681,437
Cash equivalents	3,697,547,661	2,506,323,383
	P4,041,169,742	P2,911,004,820

Cash in banks earn interest at the prevailing bank deposit rates. Temporary investments are made for three months or less depending on the immediate cash requirement of the Group and earn interest at the respective temporary investment rates. Temporary investments, which have an average maturity of 30 days, earn interest ranging from 1.25% to 2.13% in 2015, 1.75% to 2.00% in 2014, and 1.00% to 1.88% in 2013.

Total interest income earned from cash in banks and cash equivalents amounted to P50,552,252, P25,492,852 and P44,451,855 in 2015, 2014 and 2013, respectively (see Note 23).

As of December 31, the Group's cash and cash equivalents include United States Dollar (US\$) and (HK\$) deposits with local banks as follows:

	US Dollar		HK Dollar	
	2015	2014	2015	2014
Foreign currency	\$3,374,993	\$1,488,019	\$215,786	\$218,002
Peso equivalent	P159,164,689	P66,544,230	P1,314,138	P1,253,513
Closing exchange rate per dollar as at December 31	P47.16	P44.72	P6.09	P5.75

Net unrealized foreign exchange gains charged to profit or loss amounted to P6,248,738 in 2015, P880,730 in 2014 and P3,525,257 in 2013.

6. Financial Assets at FVPL

Financial assets at FVPL represent shares of stock of various publicly listed companies as of December 31, 2015 and 2014.

The movements in this account are as follows:

	2015	2014
Beginning balance	P33,012,524	P30,348,704
Fair value adjustment (Note 23)	1,869,576	2,663,820
Ending balance	P34,882,100	P33,012,524

The Group recognized unrealized gains (losses) on fair value adjustments of the investments amounting to P1,869,576 in 2015, P2,663,820 in 2014, and (P1,926,992) in 2013 (see Note 23). There were no additions or disposals in 2015 and 2014.

7. Receivables

This account consists of:

	2015	2014
Trade:		
Installment contracts receivable - net of noncurrent portion of P660,986,703 in 2015 and nil in 2014	P1,163,098,939	P2,842,228,694
Rent (Note 31)	194,320,946	201,286,080
Nontrade:		
Advances to contractors and suppliers	688,909,442	1,031,179,038
Related parties (Note 31)	72,902,777	42,794,110
Advances to officers and employees	5,732,997	7,695,914
Interest (Note 5)	4,396,733	1,697,524
Others	51,129,262	43,424,463
	2,180,491,096	4,170,305,823
Less allowance for impairment loss	8,056,439	8,056,439
	P2,172,434,657	P4,162,249,384

Installment contracts receivable represent noninterest-bearing receivables from sale of condominium units with average term ranging from one to five years. These are carried at amortized cost and are discounted using prevailing interest rates at the dates of transactions. Installment contracts receivables are subject to either bank financing or in-house financing. The differences between the present values and face values of the receivables are amortized using the EIR method over the term of the respective contracts. Interest income from accretion of installment contracts receivable amounted P180,854,605, P236,879,642 and P228,037,161 in 2015, 2014 and 2013, respectively (see Note 23).

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

Advances to contractors and suppliers are noninterest-bearing downpayments and are capitalized to projects cost in the consolidated financial position, upon actual receipt of services or supplies, which is normally within 12 months or within the normal operating cycle.

The terms, balances and transactions with related parties are disclosed in Note 31.

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

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

The movements of the allowance for doubtful accounts in 2015 and 2014 that is individually impaired as follows:

	2015	2014
Beginning balance	P8,056,439	P7,074,077
Bad debts	–	982,362
Ending balance	P8,056,439	P8,056,439

The following table shows the expected cash flows from installment contracts receivable as of December 31:

	2015	2014
Expected cash flows in:		
2015	P–	P4,795,800,178
2016	3,767,852,227	1,099,457,377
2017	1,079,666,775	570,046,949
2018	460,203,122	647,885,065
2019	1,344,248,187	–
	6,651,970,311	7,113,189,569
Less unamortized discount and unearned income*	4,827,884,669	4,270,960,875
	P1,824,085,642	P2,842,228,694

*Unearned income is the portion of the total contracts price of sold units which remains to be unearned as of the reporting period. The amount will be recognized as condominium sales as the construction of the projects progress based on the percentage of completion of the projects.

As of December 31, 2015 and 2014, excess collections from condominium unit buyers over recognized revenue based on the percentage of completion method were recorded as part of the “Customers’ deposits” account amounting to P1,165,035,149 and P945,320,881, respectively (see Note 18).

As of December 31, 2015 and 2014, installment contracts receivables with a total nominal amount of P1,859,103,127 and P2,872,095,478, respectively, were recorded at amortized cost amounting to P1,824,085,642 and P2,842,228,694, respectively.

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

	2015	2014
Beginning balance	P4,270,960,875	P3,402,472,504
Additions	5,391,881,197	4,869,645,906
Recognized as:		
Condominium sales	(4,654,102,798)	(3,764,277,893)
Interest income (Note 23)	(180,854,605)	(236,879,642)
Ending balance	P4,827,884,669	P4,270,960,875

8. Properties Held for Sale

This account consists of:

	2015	2014
Condominium units held for sale	P74,941,130	P103,768,502
Construction in progress	7,085,833,142	5,669,349,192
	P7,160,774,272	P5,773,117,694

Condominium units for sale pertain to the completed residential condominium projects of the Group.

Construction in progress pertains to the Group’s on-going residential and mixed-use condominium projects.

The movements in “Condominium units held for sale” account are as follows:

	2015	2014
Beginning balance	₱103,768,502	₱119,518,437
Recognized cost of condominium sales (Note 24)	(28,827,372)	(15,749,935)
Ending balance	₱74,941,130	₱103,768,502

The movements in “Construction in progress” account are as follows:

	2015	2014
Beginning balance	₱5,669,349,192	₱2,323,991,358
Construction or development costs incurred (Notes 1 and 12):		
Construction cost	1,523,782,137	2,034,475,320
Land cost	1,028,067,503	497,995,120
Project management expenses	131,465,358	174,969,320
Taxes, permits and licenses	62,067,527	40,533,923
Professional and consultancy fees	61,316,890	149,262,935
Insurance and bonds	13,538,473	29,873,680
Others	53,327,389	28,986,047
Transfer from real estate development projects (Note 14)	888,757,454	2,815,955,676
Recognized cost of condominium sales (Note 24)	(2,345,838,781)	(2,426,694,187)
Ending balance	₱7,085,833,142	₱5,669,349,192

On November 2, 2015, TRDCI and Vivelya Development Company, Inc. (VDCI) have entered into a contract to sell the land where TRDCI’s project is currently being constructed. The consideration for the land shall be for a minimum base price of ₱1.1 billion, exclusive of 12% VAT. Payment term for the purchase price includes a down payment upon signing the contract of fifteen per cent (15%) of base price amounting to ₱165.0 million, exclusive of 12% VAT. The remaining balance of the purchase price shall be paid on a quarterly installment basis until full payment of the purchase price. In 2015, interest cost related to the amortization of the installment payable was capitalized as borrowing cost amounted to ₱4.8 million. The unamortized discount on installment payable as of December 31, 2015 amounted to ₱71.9 million.

Condominium units held for sale and construction in progress are stated at cost as of December 31, 2015 and 2014. There were no allowances for inventory write-down as of December 31, 2015 and 2014.

9. Input Tax and Other Current Assets

	2015	2014
Input tax	₱1,207,968,471	₱1,039,008,790
CWT	296,539,147	222,707,813
Prepaid commission	205,256,575	159,004,639
Cash in escrow	–	352,027,489
Other prepaid expenses	55,931,316	32,443,275
	₱1,765,695,509	₱1,805,192,006

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

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

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

Cash in escrow pertains to the cash deposited with a local bank in compliance with the escrow agreement between TRDCI, a local bank and the Housing and Land Use Regulatory Board (HLURB). The cash in escrow shall be released upon written notice of the HLURB to an escrow agent upon submission by TRDCI of certain requirements. In 2015, TRDCI has complied with the requirements and received a license to sell from HLURB. The cash in escrow has also been released to the TRDCI.

Other prepayments mainly consist of advance payments for insurance, real property taxes, rent, and other expenses which are normally utilized within the next financial year.

10. Investments in Associates and Joint Venture

This account consists of:

	2015	2014
Acquisition costs:		
Beginning balance	P495,810,625	P2,290,388,110
Additions to investment	10,500,000	15,000,000
Reclassification as a result of business combination (Note 12)	—	(1,809,577,485)
Ending balance	506,310,625	495,810,625
Accumulated share in net income (losses):		
Beginning balance	(85,020,396)	150,922,180
Share in net income (losses) of associates and a joint venture	70,658,121	(9,692,903)
Reclassification as a result of business combination (Note 12)	—	(226,249,673)
Ending balance	(14,362,275)	(85,020,396)
	P491,948,350	P410,790,229

On April 30, 2014, the Group obtained control over its associates, both SGCPI and FBShI, through step acquisition as discussed in Note 12.

In 2013, the Group sold 623,800 common shares representing 35% interest in Exchange Properties Resources Corporation (EPRC) for a total consideration of P92,000,000. Gain on the disposal of EPRC shares recognized in the profit or loss amounted to P17,438,767 (see Note 23).

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

All of the Group's associates and joint venture are considered to be immaterial individually. The Group's associates and joint venture are as follows:

	Percentages of Ownership	
	2015	2014
Sky Leisure Properties, Inc. (SLPI)	50.00%	50.00%
Ideal Sites and Properties, Inc. (ISPI)	40.00%	40.00%
Others	various	various

The aggregate amount of the Group's share in the net income (losses) after tax and total comprehensive income (losses) of these associates are P70,658,121 in 2015, (P9,692,903) in 2014 and (P4,674,079) in 2013.

As at December 31, 2015 and 2014, the Group has no share in any contingent liabilities or capital commitments.

11. Material Partly-Owned Subsidiaries

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

	2015	2014
KSA	47.1%	47.1%
SGCPI	40.0%	40.0%

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

KSA Realty Corporation

	2015	2014	2013
Summarized Statements of Comprehensive Income			
Rental revenue	P992,119,396	P905,609,013	P836,652,466
General and administrative expenses	(63,034,780)	(61,821,297)	(64,206,912)
Finance income (cost) – net	2,036,023	(1,724,886)	(5,906,763)
Other income – net	747,660,456	7,567,826	3,796,880
Income before income tax	1,678,781,095	849,630,656	770,335,671
Provision for income tax	(403,222,929)	(159,322,635)	(150,743,910)
Total comprehensive income	P1,275,558,166	P690,308,021	P619,591,761

Net income and total comprehensive income attributable to:

Equity holders of the Parent Company	P674,770,270	P365,172,943	P327,764,042
NCI	600,787,896	325,135,078	291,827,719
	P1,275,558,166	P690,308,021	P619,591,761

Dividends declared to NCI	P282,600,000	P376,800,000	P164,850,000
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	2015	2014
Summarized Statements of Financial Position		
Current assets	P655,921,294	P492,715,947
Noncurrent assets	8,913,278,871	8,105,438,224
Current liabilities	(430,540,293)	(396,686,088)
Noncurrent liabilities	(2,084,651,853)	(1,823,018,230)
Equity	P7,054,008,019	P6,378,449,853
Equity attributable to:		
Equity holders of the Parent Company	P3,731,570,243	P3,374,199,972
NCI	3,322,437,776	3,004,249,881
	P7,054,008,019	P6,378,449,853
Summarized Statements of Cash Flows		
Operating activities	P620,753,300	P770,395,062
Investing activities	(8,331,564)	(3,757,036)
Financing activities	(468,595,467)	(691,073,780)
Net effect of exchange rate changes on cash and cash equivalents	34,931	2,823
Net increase in cash and cash equivalents	P143,861,200	P75,567,069

Dividends paid to NCI amounted to P226,080,000 in 2015 and P376,800,000 in 2014.

Shang Global City Properties, Inc.

	2015	2014
Summarized Statements of Comprehensive Income		
Sale of condominium units	P1,258,520,181	P425,762,627
Cost of sales of condominium units	(582,981,253)	(208,513,636)
General and administrative expenses	(217,577,962)	(16,697,532)
Other income - net	1,109,845	4,464,422
Income before income tax	459,070,811	205,015,881
Provision for income tax	(140,504,026)	(58,303,499)
Total comprehensive income	P318,566,785	P146,712,382
Net income and total comprehensive income attributable to:		
Equity holders of the Parent Company	P191,140,071	P88,027,429
NCI	127,426,714	58,684,953
	P318,566,785	P146,712,382
Summarized Statements of Financial Position		
Current assets	P4,700,699,511	P4,279,418,110
Noncurrent assets	10,734,362,780	8,290,510,828
Current liabilities	(1,645,496,245)	(5,393,047,264)
Noncurrent liabilities	(8,229,977,222)	(6,833,359,635)
Equity	P5,559,588,824	P343,522,039
Equity attributable to:		
Equity holders of the Parent Company	P3,335,753,295	P206,113,223
NCI	2,223,835,529	137,408,816
	P5,559,588,824	P343,522,039

As a result of the business combination in 2014, NCI was remeasured in the 2014 consolidated statements of financial position resulting to additional balance amounting to P823,672,481 (see Note 12).

On August 3, 2015, SGCPI has issued preference shares of stocks to its stockholders equivalent to the amount of deposit for future stock subscription amounting to P4,897,499,000, of which P1,959,000,000 pertains to NCI.

	2015	2014
Summarized Statements of Cash Flows		
Operating activities	P741,340,014	(P2,949,489,701)
Investing activities	(3,154,581,107)	(182,322,639)
Financing activities	2,198,387,500	3,378,025,000
Net effect of exchange rate changes on cash and cash equivalents	924,376	156,996
Net increase (decrease) in cash and cash equivalents	(P213,929,217)	P246,369,656

No dividends was declared and paid by SGCPI in 2015 and 2014.

The principal place of business of KSA is at Administration Office, Shangri-La Plaza Mall, Edsa corner Shaw Boulevard, Mandaluyong City while the principal place of business of SGCPI is at Crescent Park West District, Fort Bonifacio Global City, Taguig City.

12. Business Combination and Goodwill

Acquisition of additional 20% equity interest in SGCPI and FBSHI

On April 30, 2014, SGCHI and SFBHI, both wholly owned subsidiaries of the Parent Company, each entered into an agreement and acquired the 20% equity interest of Alphaland Development, Inc. (Alphaland) in SGCPI and FBSHI.

Prior to the acquisition, the Parent Company through SGCHI and SFBHI effectively owned 40% equity interest in SGCPI and FBSHI. SGCHI and SFBHI each acquired from Alphaland additional 20% interest in SGCPI and FBSHI, respectively, for a total cash consideration of P1,700,000,000. As a result of the step acquisition, the Group obtained controlling interest in SGCPI and FBSHI owning 60% equity interest over each of the acquired entities.

The following are the fair values of the identifiable assets acquired and liabilities assumed as of date of acquisition:

	SGCPI	FBSHI	TOTAL
<i>Assets</i>			
Cash and cash equivalents	P59,912,485	P175,039,023	P234,951,508
Receivables	26,961	1,342,762	1,369,723
Property under development	4,800,000,000	6,696,161,000	11,496,161,000
Prepayments and other current assets	271,722,029	566,766,301	838,488,330
Property and equipment - net	—	2,786,769	2,786,769
Refundable deposit	—	15,275,800	15,275,800
	5,131,661,475	7,457,371,655	12,589,033,130

	SGCPI	FBSHI	TOTAL
<i>Liabilities</i>			
Trade and other payables	P3,165,762	P399,637,815	P402,803,577
Income tax payable	–	13,615	13,615
Long term bank loan	–	4,098,499,138	4,098,499,138
Deposit for future stock subscription	1,976,487,102	1,941,512,898	3,918,000,000
Deferred tax liability	782,412,892	154,658,230	937,071,122
	2,762,065,756	6,594,321,696	9,356,387,452
Total identifiable net assets at fair value	2,369,595,719	863,049,959	3,232,645,678
Goodwill	140,355,211	129,515,653	269,870,864
Acquisition cost	P2,509,950,930	P992,565,612	P3,502,516,542

As of acquisition date, the fair value of SGCPI's and FBSHI's property under development amounted to P4,800,000,000 and P6,696,161,000, respectively. Their carrying amounts in SGCPI's and FBSHI's books amounted to P2,373,840,000 and P6,180,633,566, respectively.

The fair values of other assets and liabilities approximate their carrying amounts since these are short-term in nature or with current market terms.

The cost of the acquisition is determined as follows:

	SGCPI	FBSHI	Total
Cash paid	P1,009,571,776	P690,428,224	P1,700,000,000
Non-controlling interest	750,189,577	151,068,694	901,258,271
Acquisition-date fair value of previously held interest	750,189,577	151,068,694	901,258,271
	P2,509,950,930	P992,565,612	P3,502,516,542

Analysis of cash flow on acquisition is as follows:

Cash paid	(P1,700,000,000)
Net cash acquired from subsidiaries	234,951,508
Net cash outflow on acquisition	(P1,465,048,492)

Non-controlling interest and fair value of previously held interest have been measured at the proportionate share of the net identifiable assets acquired and liabilities assumed at fair value.

Gain from remeasurement of the previously held interest to fair value amounting to P824,431,141 is recognized in profit or loss in 2014.

Goodwill from the business combination amounted to P269,870,864.

From the date of acquisition (April 30, 2014) to December 31, 2014, SGCPI, the surviving entity in the merger, contributed P425,762,627 of revenue and P207,861,063 of income before tax to the Group. If the combination had taken place at the beginning of the year, there would be no change in the total revenue of the Group but income before tax of the Group would have been P4,112,988,684.

Merger of SGCPI and FBSHI

On May 5, 2014, the BOD and shareholders of SGCPI and FBSHI approved a proposed merger between SGCPI and FBSHI. On September 2, 2014, the article of merger was executed between

SGCPI and FBSHI. The SEC approved the Companies' application for merger on December 17, 2014.

The merger is intended to accumulate the costs of construction in the surviving entity, allowing for better tax management. The plan of merger states that FBSHI will transfer to SGCPI its business properties, assets and liabilities that are reflected in its April 30, 2014 audited financial statements. Before and after the merger, both companies are effectively under the common control of Kerry Group Limited (KGL). KGL is the indirect parent company and investor of the stockholders of SGCPI and FBSHI. As a result, the merger was accounted for using the pooling of interests method. The merger has no effect on the carrying amounts of the Group's assets and liabilities.

Goodwill

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

The recoverable amount of the CGU has been based on value in use calculation using cash flow projections from financial budgets approved by management covering a five-year period. The pre-tax discount rate applied to cash flow is 14.56%. Cash flows beyond the five-year period are extrapolated using a steady growth rate of 3%, which does not exceed the compound annual growth rate for the real estate industry. As a result of the analysis, management did not identify impairment for this CGU.

Key Assumptions Used in Value in Use Calculations

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

- *Gross Margins* - Gross margins are based on average values achieved in one to five years preceding the beginning of the budget period from other similar affiliated entities.
- *Discount Rates* - Discount rates represent the current market assessment of the risks specific to the CGU, taking into consideration the time value of money and individual risks of the CGU that have not been incorporated in the cash flow estimates. The discount rate is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment. The rates used to discount the future cash flows are based on risk-free interest rates in the relevant markets where the CGU operates. The beta factors are based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.
- *Growth Rate Estimates* - Rates are based on published industry research.
- *Market Share Assumptions* - When using industry data for growth rates (as noted above), these assumptions are important because management assesses how the unit's position, relative to its competitors, might change over the forecast period. Management expects its share of the real estate market to be stable over the forecast period.

Sensitivity to Changes in Assumptions

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

13. Investment Properties

	2015		
	Land	Buildings	Total
Beginning balances	₱8,802,540,220	₱18,308,327,268	₱27,110,867,488
Gain (loss) on fair value adjustments	778,121,840	(228,897,180)	549,224,660
Additions through subsequent expenditures	–	518,475,727	518,475,727
Ending balances	₱9,580,662,060	₱18,597,905,815	₱28,178,567,875

	2014		
	Land	Buildings	Total
Beginning balances	₱8,802,540,220	₱17,940,685,730	₱26,743,225,950
Additions through subsequent expenditures	–	367,641,538	367,641,538
Ending balances	₱8,802,540,220	₱18,308,327,268	₱27,110,867,488

The Group's investment properties consist of commercial properties in Mandaluyong City and Makati City under office, retail and land classes of asset, and other parcels of land held for capital appreciation. These classes of assets are based on the nature, characteristics and risks of each property.

As of December 31, 2015 and 2014, the fair values of the properties are based on valuations performed by Royal Asia Appraisal Corporation, an SEC accredited independent valuer. The valuation models are in accordance with that recommended by the International Valuation Standards Committee.

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

The fair value measurements for investment properties have been categorized as Level 2 for parcels of land and Level 3 for office and retail properties. The current use of these properties is their highest and best use.

The fair value of the Group's land is determined using the market comparison method. Under the market comparison method (or market comparison approach), a property's fair value is estimated based on comparable transactions. The market comparison approach is based upon the principle of substitution under which a potential buyer will not pay more for the property than it will cost to buy a comparable substitute property. In theory, the best comparable sale would be an exact duplicate of the subject property and would indicate, by the known selling price of the duplicate, the price for which the subject property could be sold. The unit of comparison applied by the Group is the price per square meter (sqm). The market comparison approach is often used in combination with either DCF or the income capitalization method as many inputs to these methods are based on market comparison.

The following table presents the valuation techniques and unobservable key inputs used to value the Group's investment properties categorized as Level 3.

Class of Property	Fair Value as of December 31, 2015	Valuation Technique	Unobservable Inputs	Range of Unobservable Inputs (probability - weighted average)	Relationship of Unobservable Inputs to Fair Value
TEC (Office)	P8,940,733,000	Direct income capitalization	Rental value	P855 to P1,260 per square meter	The higher the rental value, the higher the fair value
			Average long-term occupancy rate	97%	The higher the occupancy rate, the higher the fair value
			Expense - revenue ratio	6.05%	The higher the expense - revenue ratio, the lower the fair value
			Capitalization rate	9%	The higher the discount rate, the lower the fair value
Main Wing and East Wing of Shangri-La (Retail)	P9,095,900,000	Direct income capitalization	Rental value	P1,425 to P1,890 per square meter	The higher the rental value, the higher the fair value
			Average long-term occupancy rate	97%	The higher the occupancy rate, the higher the fair value
			Expense - revenue ratio	21%	The higher the expense - revenue ratio, the lower the fair value
			Capitalization rate	9%	The higher the discount rate, the lower the fair value

Fair values for investment properties are calculated using the direct income capitalization method, which results in these measurements being classified as Level 3 in the fair value hierarchy. In applying the direct income capitalization method, the stabilized net operating income (NOI) of each property is divided by an appropriate capitalization rate. Capitalization rate is based on actual location, size and quality of the property and taking into account any available market data at the valuation date. Stabilized NOI is the revenues less property operating expenses adjusted for items such as average lease up costs, long-term vacancy rates, non-recoverable capital expenditures, management fees, straight-line rents and other non-recurring items.

Generally, an increase in stabilized NOI will result in an increase to the fair value of an investment property. An increase in the capitalization rate will result in a decrease to the fair value of an investment property. The capitalization rate magnifies the effect of a change in stabilized NOI, with a lower capitalization rate resulting in a greater impact of a change in stabilized NOI than a higher capitalization 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;
- *Average long-term occupancy rate*
Based on current and expected future market conditions after expiry of any current lease;
- *Expense – Revenue Ratio*
Total direct operating expenses for the entire property based on budget.

Rental revenue recognized for investment properties and direct operating expenses incurred for the leasing operations in 2015, 2014 and 2013 are as follows:

	2015	2014	2013
Rental revenue	P2,676,323,065	P2,624,893,646	P2,338,990,151
Direct operating expenses	404,498,691	440,430,051	419,425,983
Profit arising from investment properties carried at fair value	P2,271,824,374	P2,184,463,595	P1,919,564,168

14. Real Estate Development Projects

SGCPI

In 2014, the Group recognized the real estate development project of SGCPI in the consolidated financial statements as a result of the business combination (see Note 12).

The real estate development project pertains to the construction cost of the hotel and residence portion of SGCPI's Shangri-la at the Fort project, while the construction cost of the project's condominium units are classified as Construction in Progress under Properties Held for Sale.

The "Real estate development projects" account consists of the following:

	2015	2014
Structure and architectural works	P3,257,705,655	P2,570,735,196
Building service	2,673,404,471	1,979,081,659
Cost of land	2,373,840,000	2,373,840,000
Interior fitting out works	2,233,152,588	1,058,993,369
Site formation and substructure	1,251,650,938	1,242,280,854
Finance cost (Note 19)	984,828,802	304,457,410
Professional consultancy fees	881,076,757	834,248,066
Project management expenses	395,520,127	299,164,168
Project management and technical fee	87,544,616	69,529,419
Preliminaries and preparation works	53,171,570	41,215,442
Taxes, permits and licenses	51,917,971	38,547,836

(Forward)

	2015	2014
Artworks and display items	P18,538,192	P-
Soft landscaping	12,177,293	-
Retention fee	-	258,248,524
Others	65,414,006	15,210,221
Total construction and development costs incurred	14,339,942,986	11,085,552,164
Construction and development costs transferred to real estate held for sale (Note 8)	(3,704,713,130)	(2,815,955,676)
Fair value adjustments due to business combination (Note 12)	2,941,687,434	2,941,687,434
	P13,576,917,290	P11,211,283,922

KRC

As of December 31, 2013, the real estate development project pertains to the project of KRC that had undergone initial development activities. Costs incurred for this project include initial construction costs, architect and professional fees, project management costs and borrowing costs.

In 2013, the Board of KRC subsequently approved the redevelopment of this real estate project. Thus, the Group reversed the accumulated impairment losses amounting to P181,954,697 which resulted from the uncertainty on the planned development due to suspension of the project. The recoverable amount of the real estate project is determined based on a value in use calculation using cash flow projections from financial budgets approved by management covering a four-year period. The cash flows have been prepared to reflect the market selling price of a condominium unit per square meter and the expected costs of its construction per square meter. The pre-tax discount rate applied to the cash flow projections is 21%.

In 2014, KRC acquired 100% ownership interest over TRDCI, an entity incorporated on April 22, 2014 and registered with the SEC. On the same date, KRC transferred to TRDCI its contractual obligation to develop a high rise condominium building located in Makati City. Construction activities for the project commenced in 2014. As a result, the entire carrying amount of real estate development project amounting to P484,885,587 was reclassified to Construction in Progress in 2014 (see Note 8).

15. AFS Financial Assets

This account consists of:

	2015	2014
At cost - unquoted	P488,826,327	P488,826,327
At fair value – quoted		
Acquisition cost	9,121,515	9,121,515
Cumulative changes in fair value	6,925,000	4,875,000
	16,046,515	13,996,515
	P504,872,842	P502,822,842

Unquoted equity securities include unlisted shares of stock which the Group will continue to carry as part of its investment. The fair value of this investment cannot be reliably determined, thus, it is carried at cost less allowance for impairment, if any.

The quoted equity securities consist of investment in various golf club shares and stocks. These are carried at fair values with cumulative changes in fair values presented as part of "Other components of equity." The fair values of these shares are based on the quoted market prices as of the reporting date.

Management intends to dispose the quoted and unquoted equity shares through sale, as the need arises. The movement in the cumulative changes in fair value of AFS financial assets is as follows:

	2015	2014	2013
Beginning balance	P4,875,000	P4,375,000	P4,075,000
Increase in fair value	2,050,000	500,000	300,000
Ending balance	P6,925,000	P4,875,000	P4,375,000

16. Property and Equipment

This account consists of:

	2015			
	Building and Improvements	Transportation Equipment	Furniture, Fixtures and Other Equipment	Total
Cost				
Beginning balances	P86,942,834	P35,015,700	P100,921,742	P222,880,276
Additions	221,230	9,033,560	83,352,074	92,606,864
Disposals	(587,473)	(2,605,356)	(4,780,653)	(7,973,482)
Reclassification	—	(2,570,537)	(2,487,588)	(5,058,125)
Ending balances	86,576,591	38,873,367	177,005,575	302,455,533
Accumulated Depreciation and Amortization				
Beginning balances	50,355,965	26,869,710	78,645,184	155,870,859
Depreciation and amortization	5,891,588	5,550,553	12,876,214	24,318,355
Disposals	(587,473)	(2,605,356)	(4,780,653)	(7,973,482)
Reclassification	—	(2,570,536)	(2,487,588)	(5,058,124)
Ending balances	55,660,080	27,244,371	84,253,157	167,157,608
Net Book Values	P30,916,511	P11,628,996	P92,752,418	P135,297,925

	2014			
	Building and Improvements	Transportation Equipment	Furniture, Fixtures and Other Equipment	Total
Cost				
Beginning balances	P85,001,439	P32,812,778	P86,339,676	P204,153,893
Additions	1,941,395	3,914,527	15,542,640	21,398,562
Reclassification	—	(1,711,605)	(960,574)	(2,672,179)
Ending balances	86,942,834	35,015,700	100,921,742	222,880,276
Accumulated Depreciation and Amortization				
Beginning balances	46,863,089	22,671,262	67,523,922	137,058,273
Depreciation and amortization	3,492,876	5,910,053	12,081,819	21,484,748
Reclassification	—	(1,711,605)	(960,557)	(2,672,162)
Ending balances	50,355,965	26,869,710	78,645,184	155,870,859
Net Book Values	P36,586,869	P8,145,990	P22,276,558	P67,009,417

Total depreciation and amortization amounting to P1,804,388 in 2015 and P1,070,591 in 2014 were capitalized as part of construction in progress.

As at December 31, 2015 and 2014, the gross carrying amount of fully depreciated property and equipment still in use amounted to P115,939,966 and P94,520,818, respectively.

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

17. Other Noncurrent Assets

This account consists of:

	2015	2014
Refundable deposits	P58,480,893	P68,414,064
Retirement asset (Note 27)	4,923,100	—
Others	7,428	79,690
	P63,411,421	P68,493,754

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

18. Accounts Payable and Other Current Liabilities

This account consists of:

	2015	2014
Trade:		
Accounts payable	P503,878,353	P293,293,247
Advanced rental	258,751,652	244,333,788
Accrued expenses:		
Construction	655,073,513	925,298,088
Taxes	165,897,633	108,920,388
Utilities	59,004,153	60,803,660
Titling cost	52,122,450	8,307,635
Performance bonus	48,528,538	58,579,449
Administrative	41,681,163	28,707,910
Interest	38,435,379	47,886,875
Outside services	28,153,985	13,329,749
Commission	23,852,115	47,604,434
Repairs and maintenance	15,733,544	22,591,641
Professional fees	6,520,746	7,930,546
Others	65,243,536	46,232,805
Customers' deposits (Note 7)	1,255,778,764	992,139,826
Retention payables	1,171,834,115	1,006,949,126
Reservation payables	408,504,556	367,124,866
Advances from condominium unit buyers	293,547,261	217,346,741

(Forward)

	2015	2014
Construction bonds	P54,657,359	P54,535,992
Payable to contractors and suppliers	44,097,825	44,097,825
Nontrade:		
Deferred output VAT	139,736,544	107,826,686
Withholding taxes	53,117,569	50,767,384
Payable to related parties (Note 31)	45,224,002	43,629,767
Output VAT	42,691,007	43,697,652
Other current liabilities	85,320,129	41,277,077
	P5,557,385,891	P4,883,213,157

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

Advanced rental pertains to the advance rental collected from tenants and are usually applied for the subsequent months.

Other accrued expenses consist of accruals for advertising and promotions, insurance, other employee related cost and other general and administrative expenses.

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

Customers' deposits mainly represent excess of collections from buyers over the related revenue recognized based on the percentage of completion method.

Reservation payables pertain to cash paid by the buyers of condominium units for the reservation of the units purchased. These shall be considered as part of the downpayment on the units purchased upon execution of the contracts.

Advances from condominium unit buyers pertain to the amounts received in advance from the condominium unit buyers of The St. Francis Shangri-La Place (TSFSP) and OSP for utilities, maintenance, and repairs of common areas. These will be paid to The St. Francis Shangri-La Place Condominium Corporation (TSFSPCC) and One Shangri-La Place Condominium Corporation (OSPCC) when demanded.

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

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

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

Withholding taxes payable are expected to be settled within the next financial year.

The terms, balances and the volume of related party transactions which were and were not eliminated during consolidation are disclosed in Note 31.

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

Other current liabilities pertain mainly to taxes, insurance, and various immaterial account balances.

19. Bank Loans

This account consists of borrowings of the following entities:

	2015	2014
SGCPI (Note 12)	₱8,964,329,487	₱6,752,835,572
Parent Company	3,200,000,000	5,095,833,333
SLPC	300,000,000	300,000,000
	12,464,329,487	12,148,668,905
Less current portion	867,751,562	583,333,333
Noncurrent portion	₱11,596,577,925	₱11,565,335,572

SGCPI

On February 17, 2012, the Board of the Parent Company passed and approved a resolution wherein it agreed to act as a surety to the loan of FBSHI, now SGCPI, the surviving entity in a merger as discussed in Note 12. On April 11, 2012, FBSHI secured a ₱10,000,000,000 long-term loan facility with a local bank to finance the construction of a hotel, serviced apartment, and residential units in Fort Bonifacio, Taguig City in relation to the Shangri-La at the Fort Project. Under the continuing suretyship agreement executed between the Parent Company and the local bank on May 23, 2012, the Parent Company agreed to be solidarily liable to the extent of 50% of any and all amounts due under the loan agreement between FBSHI and the local bank. The local bank is entitled under current jurisprudence to demand directly from the Parent Company any and all amounts due.

Under the terms of the loan agreement, the principal amount of the loan shall be payable in 24 equal quarterly consecutive installments commencing on the 17th quarter from the initial drawdown, with the last installments in an amount sufficient to fully pay the loan. Interest shall be paid on each interest payment date for the relevant interest period based on three-month treasury bill rate as published in the Philippines Dealing System Treasury Reference Rates – 2 (PDST-R2). Effective October 2015, the interest shall be based on the higher between the PDST-R2 rate plus spread of 0.85% per annum and the Bangko Sentral ng Pilipinas (BSP) overnight borrowing rate minus spread of 0.95% per annum. SGCPI has the option to prepay and to fix the interest rate. Further, SGCPI is required to maintain a 2.5:1 ratio of debt to tangible net worth, which was complied with by SGCPI.

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

The loan is subject to a front-end fee of 25 basis points (0.25%) of the total principal amount. The front-end fee is considered a transaction cost which is allocated based on each drawdown and amortized using effective interest rate. Debt issue costs also include the documentary stamp tax paid

by SGCPI for each drawdown. As of December 31, 2015 and 2014, unamortized debt issue cost amounted to P45,670,513 and P42,164,428, respectively. Total interest expense, including amortization of transactions costs, amounted to P680,371,392 and P304,457,410 in 2015 and 2014, respectively. Capitalized interest in 2015 and 2014 amounted to the same amounts and is included as part of "Construction in progress" and "Real estate development projects".

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

Parent Company

On February 12, 2008, the Parent Company obtained an unsecured ten-year term loan facility from a local bank amounting to P3,500,000,000 with interest based on the higher between the PDST-R2 rate plus 0.75% per annum and the BSP overnight borrowing rate. The loan is payable in 24 equal quarterly installments commencing on the 17th quarter from the initial borrowing date and is subject to a debt-to-equity ratio of 3:1 which was complied with by the Parent Company. The Parent Company has fully drawn the facility as of December 31, 2009. The loan has been repaid in full in 2015.

On July 30, 2012, the Parent Company obtained another ten-year loan facility from a local bank amounting to P5,000,000,000 with interest based on the higher between the three-month Treasury Bill rate as published in the PDST-R2 plus a spread of 0.75% per annum and the BSP overnight borrowing rate. The Company has a one-time option to convert from a floating rate into a fixed rate. The loan is payable in 24 equal quarterly installments, commencing on the 17th quarter from the initial borrowing date. It is secured by a 'negative pledge' on all present and future assets of the Parent Company and is subject to a debt service coverage ratio of 3:1 which was complied with by the Parent Company. Total drawdown from the facility amounted to P3,200,000,000 as of December 31, 2015 and 2014.

SLPC

On June 25, 2007, the Company obtained an unsecured seven-year term loan from a local bank amounting to P900,000,000 for working capital and refinancing of the Company's existing loan with interest based on Philippines Interbank Reference Rate (PHIBREF) rate plus 0.75% per annum. The Company has fully settled the loan in 2014.

On November 5, 2012, SLPC obtained an unsecured ten-year term loan facility from a local bank amounting to P1,400,000,000 to partially finance its mall redevelopment program with interest based on the higher between the PDST-R2 rate plus 0.75% per annum and the BSP overnight borrowing rate. The loan is payable in 24 equal quarterly installments commencing on the 17th quarter from the initial borrowing date and is subject debt-to-equity ratio of 3:1 and debt coverage ratio of not lower than 1.2 which was complied with by SLPC.

The current and noncurrent portions of the bank loans as of December 31 and its movements during the year are as follows:

	2015	2014
Beginning principal balance	₱12,148,668,905	₱4,943,452,381
Proceeds from loan availment, net of unamortized debt issue costs	2,211,493,915	3,754,336,434
Principal payments during the year	(1,895,833,333)	(647,619,048)
Loan acquired from SGCPI as a result of the business combination	—	4,098,499,138
Ending principal balance	12,464,329,487	12,148,668,905
Less current portion	867,751,562	583,333,333
Noncurrent portion	₱11,596,577,925	₱11,565,335,572

Interest expense arising from the above loans charged to profit or loss in 2015, 2014 and 2013 amounted to ₱167,764,626, ₱194,498,162 and ₱182,181,047, respectively (see Note 23).

Repayment Schedule

The repayments of long-term debt are scheduled as of December 31, 2015 is as follows:

Year	Amount
2016	₱884,166,667
2017	2,072,500,000
2018	2,085,000,000
2019	2,085,000,000
2020	2,085,000,000
2021	2,085,000,000
2022	1,200,833,333
2023	12,500,000
	12,510,000,000
Unamortized debt issue cost	(45,670,513)
	₱12,464,329,487

20. Deposits from Tenants

This account represents noninterest-bearing rental deposits from tenants equivalent to six months' rent which have been discounted using PDST - R2 rates and are carried at amortized cost. The difference between the discounted and face values of the deposits was recognized as deferred lease income. Deferred lease income is amortized on a straight-line basis over the lease term and is recognized in profit or loss as additional rent income. Interest is accreted on the deposits from tenants using the EIR method and is recognized as additional interest expense in profit or loss.

The movements in the unamortized discount on deposits from tenants for the years ended December 31 are as follows:

	2015	2014
Beginning balance	₱39,985,135	₱33,267,608
Additions	7,885,426	36,941,551
Amortization of discount (Note 23)	(26,188,290)	(30,224,024)
Ending balance	₱21,682,271	₱39,985,135

21. Equity

The details of the Parent Company's capital stock as of December 31, 2015 and 2014 are as follows:

	No. of Shares	Amount
Authorized - P1 par value	8,000,000,000	P8,000,000,000
Unsubscribed	(3,235,941,018)	(3,235,941,018)
Subscribed, issued and fully paid	4,764,058,982	4,764,058,982
Treasury shares	(2,140,645)	(2,140,645)
Issued and outstanding	4,761,918,337	P4,761,918,337

The Parent Company is listed in the Philippine Stock Exchange. It was registered on June 13, 1991 with total listed shares of 4,764,058,982 which was initially issued at P1.18 per share. As at December 31, 2015, 2014 and 2013, the Parent Company has 5,403, 5,457 and 5,553 stockholders, respectively. The details of the Parent Company's stockholders are disclosed in the annual report.

There are 2,140,645 shares that are in the treasury amounting to P6,850,064 as of December 31, 2015 and 2014.

As of December 31, 2015 and 2014, retained earnings of the Group include accumulated fair value adjustments of investment properties not available for dividend declaration amounting to P12,871,839,543 and P12,322,614,883, respectively, of which P4,103,242,307 and P5,130,258,834, respectively, pertains to fair value adjustments of subsidiaries.

22. Dividends

As of December 31, 2015 and 2014, unpaid dividends amounted to P148,464,960 and P104,294,980, respectively (see also Note 11).

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

Date of Declaration	Record Date	Total	Per Share
2015			
March 27	April 15	P404,763,059	P0.085
August 18	September 3	333,334,596	0.070
		P738,097,655	P0.155
2014			
February 19	March 17	P333,484,129	P0.070
August 14	August 29	309,375,117	0.065
		P642,859,246	P0.135
2013			
February 27	March 15	P285,843,539	P0.060
August 14	August 30	237,967,698	0.050
		P523,811,237	P0.110

23. Interest Income, Other Income, and Interest Expense and Bank Charges

Interest Income

	2015	2014	2013
Interest on:			
Accretion of installment contracts receivable (Note 7)	P180,854,605	P236,879,642	P228,037,161
Cash in banks and cash equivalents (Note 5)	50,552,252	25,492,852	44,451,855
Overdue accounts from tenants	5,466,159	6,988,535	6,937,851
	P236,873,016	P269,361,029	P279,426,867

Other Income (Charges)

	2015	2014	2013
Dividend income	P40,033,691	P15,234,198	P18,823,456
Administration and management fee (Note 31)	14,086,986	12,806,351	11,642,137
Income from back-out buyers	9,216,137	2,609,798	3,181,975
Customer lounge fee	7,399,531	8,439,786	8,267,732
Banner income	4,443,506	2,141,016	2,675,584
Service revenue - net	2,754,798	485,749	1,257,919
Fair value adjustments of financial assets at FVPL (Note 6)	1,869,576	2,663,820	(1,926,992)
Revenue from ancillary services	1,332,947	2,029,822	3,063,401
Forfeited security deposits	1,001,089	6,185,855	1,425,085
Gain on:			
Disposal of investment in associate (Note 10)	—	—	17,438,767
Sale of property and equipment	724,894	—	216,983
Others	17,371,850	15,379,290	46,326,184
	P100,235,005	P67,975,685	P112,392,231

Interest Expense and Bank Charges

	2015	2014	2013
Interest on bank loans and bank charges	P175,370,285	P196,842,320	P182,754,583
Accretion of deposits from tenants	26,188,290	30,224,024	2,207,280
	P201,558,575	P227,066,344	P184,961,863

24. Cost of Condominium Sales

	2015	2014	2013
SPRC	P838,317,772	P1,953,269,414	P2,903,561,689
SPDI	638,580,756	262,381,970	73,465,348
SGCPI	582,981,253	208,513,636	—
The Rise	286,414,000	—	—
Parent Company	28,372,372	18,279,102	13,987,067
	P2,374,666,153	P2,442,444,122	P2,991,014,104

25. General and Administrative Expenses and Taxes and LicensesGeneral and Administrative Expenses

	2015	2014	2013
Professional fees and outside services	P76,514,965	P56,388,585	P40,199,442
Janitorial, security and other services	36,675,444	36,805,266	29,982,384
Advertising and promotions	27,736,250	18,594,903	24,566,910
Utilities	23,430,827	16,127,671	13,923,603
Telephone and communication	9,199,991	6,737,498	5,724,174
Supplies	7,896,708	7,422,906	5,785,450
Transportation and travel	6,612,751	2,980,597	2,945,008
Condominium dues (Note 31)	6,416,787	5,212,612	4,452,176
Repairs and maintenance	5,186,045	8,908,204	4,037,200
Entertainment, amusement and representation	3,507,886	1,938,106	1,617,455
Rent	3,343,413	2,738,809	2,198,100
Membership fees and dues	3,133,230	2,896,738	2,670,149
Gas and oil	1,638,833	1,938,806	1,693,901
Systems license and maintenance	1,571,899	4,026,878	1,936,271
Reproduction charges	1,055,347	863,037	857,053
Commission	929,574	3,301,285	3,586,279
Bad debts (Note 7)	—	982,363	—
Donation	—	—	5,790,843
Others	6,244,073	15,460,423	4,966,930
	P221,094,023	P193,324,687	P156,933,328

Taxes and Licenses

	2015	2014	2013
Real estate tax	P97,829,014	P94,774,820	P68,300,448
Business taxes	96,380,691	79,285,330	64,326,136
Documentary stamp taxes	20,265,261	19,408,687	11,367,767
License and permit fees	2,778,208	539,630	631,744
Others	2,556,050	11,438,375	437,319
	P219,809,224	P205,446,842	P145,063,414

26. Staff Costs

	2015	2014	2013
Salaries and wages	P347,548,415	P246,583,276	P192,447,590
Employee benefits	83,983,312	27,055,713	20,788,573
Retirement benefit costs (Note 27)	20,333,059	16,371,642	22,090,972
Others	7,607,021	5,528,513	6,008,973
	P459,471,807	P295,539,144	P241,336,108

27. Accrued Employee Benefits

This account consists of:

	2015	2014
Retirement benefits	P39,644,347	P55,626,328
Other employee benefits	10,170,813	12,875,707
	P49,815,160	P68,502,035

Accrued employee benefits pertain to liability for retirement, leaves and other related benefits expected to be settled more than twelve months after the end of the annual reporting period.

Retirement asset amounted to P4,923,100 and nil as of December 31, 2015 and 2014, respectively, are not offset with the retirement liability as the retirement liabilities within the group shall be settled on an per entity basis (see Note 17).

Retirement Benefits

The Group has a funded, noncontributory defined benefit retirement 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 plan is administered by an independent trustee bank which is under the supervision of the Group's Treasury Department (Treasury). The Treasury is responsible for investment of the assets. It 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).

Under the existing regulatory framework, Republic Act (RA) 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided, however, that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan. The Group is compliant with this regulatory framework.

Retirement benefit costs recognized in the consolidated profit or loss as part of "Staff costs" consist of the following:

	2015	2014	2013
Current service cost	P18,215,190	P15,492,700	P16,110,440
Net interest cost	2,117,869	878,942	5,980,532
	P20,333,059	P16,371,642	P22,090,972

The components of remeasurements, before tax effect, in the consolidated statements of comprehensive income are as follows:

	2015	2014	2013
Actuarial loss (gain) in defined benefit obligation	(P46,334)	P11,336,915	(P29,107,153)
Remeasurement loss (gain) in plan asset	1,360,665	4,190,942	(7,123,218)
Remeasurement loss (gain) on changes in the effect of asset ceiling	—	(3,018,101)	3,018,101
	P1,314,331	P12,509,756	(P33,212,270)

The accrued retirement benefits and retirement assets recognized in the consolidated statement of financial position as part of "Accrued employee benefits" and "Other noncurrent assets", respectively, were determined as follows:

Presented as retirement liability:

	2015	2014
Present value of defined benefit obligations	P80,583,665	P157,435,294
Fair value of plan assets	(40,939,318)	(101,808,966)
	P39,644,347	P55,626,328

Presented as retirement asset:

	2015	2014
Present value of defined benefit obligations	P75,662,971	P—
Fair value of plan assets	(80,586,071)	—
	(P4,923,100)	P—

Shown below is the summary of the defined benefit obligation and fair value of plan assets as of December 31:

	2015	2014
Present value of defined benefit obligations	¥156,246,636	¥157,435,294
Fair value of plan assets	(121,525,389)	(101,808,966)
	¥34,721,247	¥55,626,328

The movements in the present value of defined benefit obligations are as follows:

	2015	2014
Defined benefit obligation at the beginning of year	¥157,435,294	¥127,893,495
Current service cost	18,215,190	15,492,700
Net interest cost	6,507,457	5,263,469
Actuarial loss (gain) arising from:		
Changes in financial assumptions	15,516,744	12,122,800
Experience adjustments	(15,563,078)	(785,885)
Benefits paid	(25,864,971)	(2,551,285)
Defined benefit obligation at the end of year	¥156,246,636	¥157,435,294

The movements in the fair value of plan assets are as follows:

	2015	2014
Fair value of plan assets at the beginning of year	¥101,808,966	¥101,308,665
Interest income	4,389,588	4,384,527
Remeasurement loss	(1,360,665)	(4,190,942)
Contributions	19,339,502	306,716
Benefits paid	(2,652,002)	—
Fair value of plan assets at the end of year	¥121,525,389	¥101,808,966

The fair value of the Group's plan assets by each class as at the end of the reporting period are as follows:

	2015	2014
Investments in debt instruments:		
Treasury notes and bonds	¥67,062,272	¥56,182,010
Corporate notes and bonds	6,858,608	5,745,859
Cash in banks	47,604,509	39,881,097
	¥121,525,389	¥101,808,966

Significant portion of the debt instruments held have quoted prices in an active market. The remaining plan assets do not have quoted market prices in an active market. The plan assets are highly concentrated in Treasury notes and bonds but have no credit risk since these are government obligations.

The principal actuarial assumptions used are as follows:

	2015	2014	2013
Future salary increase rate	4.00%	5.00%	4.00%
Discount rate	4.80% to 5.08%	4.44% to 4.75%	4.25% to 5.89%

Mortality rate is based on the 1994 Group Annuity Mortality Table for both 2015 and 2014.

The discount rates used are the single weighted average rate for each company based on bootstrapped PDST-R2 at various tenors as of December 31. Rates 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 turnover rate represents the proportion of current plan members who will resign from service prior to their retirement date and hence be entitled to resignation benefits instead of retirement benefits.

There were no changes from the previous period in the methods and assumptions used in preparing sensitivity analysis.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

Significant Assumptions	Increase (decrease) in defined benefit obligation	
	2015	2014
Discount rate		
Increase of 1%	(P11,429,998)	(P12,655,707)
Decrease of 1%	13,270,756	13,025,893
Future salary increase rate		
Increase of 1%	12,496,637	13,834,893)
Decrease of 1%	(10,972,860)	(12,073,207)

The management performed an Asset-Liability Matching Study (ALM) annually. The overall investment policy and strategy of the Group's defined benefit plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay retirement benefits as they fall due while also mitigating the various risk of the plans. The Group's current strategic investment strategy consists of 55% treasury investments, 6% corporate investments and 39% cash.

The Group expects to contribute P31,046,320 to the defined benefit plan in 2016.

The average duration of the defined benefit obligation as of December 31, 2015 and 2014 ranges from years 20 to 44 years and 12 to 30 years, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments as of the reporting date:

Plan Year	2015	2014
Less than one year	P40,044,010	P13,482,327
More than one year to five years	29,233,998	58,022,748
More than five years to 10 years	107,601,440	81,208,246
More than 10 years to 15 years	89,405,891	108,765,509
More than 15 years to 20 years	149,152,895	148,516,779
More than 20 years and above	281,586,500	332,786,244

28. Unreimbursed Share in Common Expenses

SLPC collects reimbursements from tenants, based on either a fixed amount or a percentage of sales, for the tenants' share in the costs of utilities, janitorial, security and other expenses on common areas shared by SLPC and the tenants. SLPC also collects reimbursements from the tenants for the actual costs of utilities, repairs and maintenance used by the tenants in their leased areas. All unreimbursed expenses are borne by SLPC and accordingly reported as operating costs.

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

	2015	2014	2013
Light, power and water	P314,602,642	P377,273,041	P363,579,398
Janitorial, security and other services	102,796,189	97,039,984	89,919,906
Repairs and maintenance	58,426,440	57,352,106	47,428,098
Advertising and promotions	60,108,918	56,117,121	41,546,349
Tenants' reimbursements	(467,693,136)	(501,838,831)	(446,380,891)
	P68,241,053	P85,943,421	P96,092,860

29. Income Taxes

a. The details of provision for income taxes for the years ended December 31 follow:

	2015	2014	2013
Current:			
RCIT	P980,616,391	P816,844,302	P804,552,294
Excess of MCIT over RCIT	10,901,859	4,015,210	3,285,026
Final tax on interest income	4,701,176	3,749,300	8,890,371
	996,219,426	824,608,812	816,727,691
Deferred	192,919,203	170,892,927	(65,297,967)
	P1,189,138,629	P995,501,739	P751,429,724

- b. The details of the recognized net deferred income tax assets (liabilities) at December 31 follow:

	2015	2014
Difference in profit, installment method versus POC method	P286,518,396	P284,183,755
Advance rental	77,625,496	63,814,474
Accrued expenses	29,964,427	61,463,424
Accrued employee benefits	29,197,768	26,960,297
Accumulated impairment losses	14,932,510	14,932,510
Excess MCIT over RCIT	9,446,256	4,709,164
Deferred lease income	6,209,321	11,472,017
Unamortized funded past service cost	5,670,871	2,311,551
Others	1,098,056	443,279
Deferred tax assets	460,663,101	470,290,471
Unrealized increase in fair value of investment property	(6,903,109,611)	(6,690,778,630)
Unamortized discount on deposits from tenants	(8,018,729)	(12,767,123)
Unrealized gain on foreign exchange	(2,137,428)	(238,463)
Deferred tax liabilities	(6,913,265,768)	(6,703,784,216)
	(P6,452,602,667)	(P6,233,493,745)

The deferred tax assets and liabilities balances presented in the statements of financial position are netted on a per entity basis. The following are the details:

	2015	2014
Deferred tax assets	P235,860,271	P356,407,946
Deferred tax liabilities	(6,688,462,938)	(6,589,901,691)
	(P6,452,602,667)	(P6,233,493,745)

- c. The reconciliation of provision for income tax using the statutory income tax rate and the actual provision for income tax for the years ended December 31 are as follows:

	2015	2014	2013
Provision for income tax at the statutory income tax rate	P1,430,149,607	P1,234,408,738	P916,358,897
Tax effects of:			
Difference between itemized and optional standard deductions (OSD)	(160,800,943)	(160,981,245)	(148,121,393)
Share in losses (profits) of associates	(21,197,436)	2,870,807	1,402,224
Movements in unrecognized deferred income tax assets	20,054,161	33,872,226	(48,713,148)
Dividend income	(12,010,107)	(4,570,259)	(5,647,037)
Interest income subjected to final tax	(5,261,556)	(2,474,580)	(4,445,186)

(Forward)

	2015	2014	2013
Remeasurement gain as a result of business combination	P–	P247,329,342	P–
Other non-taxable income, net of non-deductible expenses	(61,795,097)	(354,953,290)	40,595,367
Provision for income tax	P1,189,138,629	P995,501,739	P751,429,724

- d. The Parent and certain subsidiaries did not recognize the following temporary differences as of December 31, 2015 and 2014 since management believes that they may not have sufficient future taxable profits available to allow all or part of them to be utilized in the future or prior to expiration:

	2015	2014
NOLCO	P208,592,636	P136,100,712
Others	800,145	6,444,866

- e. The Group's NOLCO which is available for deduction against future taxable income are as follows:

Year Incurred	Beginning	Incurred	Expired	Ending	Available Until
2015	P–	P73,179,859	P–	P73,179,859	2018
2014	129,526,474	–	–	129,526,474	2017
2013	5,886,303	–	–	5,886,303	2016
2012	687,935	–	687,935	–	2015
	P136,100,712	P73,179,859	P687,935	P208,592,636	

- f. The Group's MCIT which can be applied against future income tax due are as follows:

Year Incurred	Beginning	Incurred	Expired	Ending	Available Until
2015	P–	P4,568,974	P–	P4,568,974	2018
2014	4,070,649	–	–	4,070,649	2017
2013	806,631	–	–	806,631	2016
2012	120,169	–	120,169	–	2015
	P4,997,449	P4,568,974	P120,169	P9,446,254	

- g. The following are the provision for (benefit from) deferred income taxes directly recognized in equity:

	2015	2014	2013
Change in fair value of AFS financial assets	P615,000	P150,000	P90,000
Remeasurement gains (losses) on defined benefit liability	(394,299)	(3,752,927)	9,963,681
	P220,701	(P3,602,927)	P10,053,681

- h. RA No. 9504, effective on July 7, 2008, allows availment of OSD. Corporations, except for nonresident foreign corporations, may elect to claim OSD in an amount not exceeding 40% of their gross income. In 2015 and 2014, KSA, SLPC and IPPI availed of the OSD for the computation of their taxable income.

30. Earnings Per Share

Basic and diluted earnings per share are the same since there are no dilutive potential common shares.

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

Based on Net Income

	2015	2014	2013
Net income attributable to equity holders of the Parent Company	₱2,849,812,817	₱2,735,375,946	₱2,011,272,641
Weighted average number of outstanding shares (Note 21)	4,761,918,337	4,761,918,337	4,761,918,337
Earnings per share	₱0.598	₱0.574	₱0.422

Based on Total Comprehensive Income

	2015	2014	2013
Total comprehensive income attributable to equity holders of the Parent Company	₱2,850,733,285	₱2,726,986,671	₱2,035,287,770
Weighted average number of outstanding shares (Note 21)	4,761,918,337	4,761,918,337	4,761,918,337
Earnings per share	₱0.599	₱0.573	₱0.427

There are no instruments that could potentially dilute basic earnings per share in the future.

31. Related Party Transactions and Balances

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by or under common control with the Group, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Group. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Group and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

The following are the transactions with related parties:

Related Party Transactions and Balances which were Not Eliminated During Consolidation

The terms, conditions, balances and the volume of related party transactions which were not eliminated during consolidation are as follows:

Transactions with affiliates

- A portion of the Parent Company's land is being leased by ESHRI, where the EDSA Shangri-La Manila Hotel (the Hotel) is located. The lease is for a period of 25 years commencing on August 28, 1992 and renewable for another 25 years at the option of ESHRI. Rental revenue is based on a fixed percentage of the Hotel's room, food and beverage, dry goods and other service revenue.
- SPMSI provides management services to TECCC, TSFSPCC, and The Shang Grand Towers Condominium Corporation (TSGTCC) for a minimum period of five years starting January 7, 2009, April 1, 2010 and January 7, 2007, respectively. As consideration, SPMSI shall receive from TSGTCC, TECCC and TSFSPCC monthly management fees of ₱400,000, ₱100,000 and ₱100,000, respectively, inclusive of VAT, with an escalation rate of 10% per annum. The parties agree mutually on the renewal of the agreements.
- Reimbursement of expenses paid for by SLPC for ESHRI.
- Condominium dues charged by TSFSPCC and TECCC.
- Sharing of expenses with affiliates.

The following are the amounts or volume of transactions during the years ended and the outstanding receivables and payables as of December 31:

	Amount/Volume			Outstanding Balance		Terms	Conditions
	2015	2014	2013	2015	2014		
Rental							
ESHRI	P98,711,556	P95,434,752	P78,171,706	P26,753,561	P25,822,596	60-day; noninterest-bearing	Unsecured, no impairment
Management Services (see Note 23)							
TECCC	P8,225,105	P8,593,545	P6,797,607	P1,558,974	P1,417,249	30-day; noninterest-bearing	Unsecured, no impairment
TSFSPCC	3,565,179	2,657,679	2,946,429	1,484,964	1,424,464	30-day; noninterest-bearing	Unsecured, no impairment
TSGTCC	2,296,702	1,555,127	1,898,101	2,926,619	1,650,773	30-day; noninterest-bearing	Unsecured, no impairment
	P14,086,986	P12,806,351	P11,642,137	P5,970,557	P4,492,486		
Condominium dues (see Note 25)							
Parent Company	P1,549,020	P2,445,042	P1,597,067	P2,192,588	P1,299,230	30-day; noninterest-bearing	Unsecured, no impairment
KSA	4,045,193	2,313,135	2,186,422	—	—	30-day; noninterest-bearing	Unsecured, no impairment
SPDI	454,435	454,435	454,435	—	—	30-day; noninterest-bearing	Unsecured, no impairment
SPRC	368,139	—	214,252	—	—	30-day; noninterest-bearing	Unsecured, no impairment
	P6,416,787	P5,212,612	P4,452,176	P2,192,588	P1,299,230		
Reimbursed expenses							
ESHRI	P10,067,328	P14,376,411	P12,553,754	P2,523,586	P3,310,911	30-day; noninterest-bearing	Unsecured, no impairment

	Amount/Volume			Outstanding Balance		Terms	Conditions
	2015	2014	2013	2015	2014		
Affiliates' share in Group's expenses							
TECCC	P42,736,164	P33,583,858	P41,952,583	P11,179,965	P7,519,966	30-day; noninterest-bearing	Unsecured, no impairment
OSPCC	34,573,457	629,854	—	18,789,747	629,854	30-day; noninterest-bearing	Unsecured, no impairment
TSFSPCC	9,412,203	7,485,435	6,758,066	5,764,298	3,466,192	30-day; noninterest-bearing	Unsecured, no impairment
TSGTCC	3,776,331	6,167,258	5,047,806	6,629,701	4,354,943	30-day; noninterest-bearing	Unsecured, no impairment
Makati Shangri-La Hotel	816,727	10,583,255	714,718	9,723,776	9,960,616	30-day; noninterest-bearing	Unsecured, no impairment
ESHRI	805,703	1,620,083	13,823,434	346,337	615,490	30-day; noninterest-bearing	Unsecured, no impairment
Mactan Shangri-La Hotel	778,912	652,065	598,533	269,907	268,695	30-day; noninterest-bearing	Unsecured, no impairment
Clavall Properties, Inc.	583	917	4,555	12,332	12,332	30-day; noninterest-bearing	Unsecured, no impairment
Mactan Beachfront Resources, Inc.	643	(6,525)	3,927	(7,793)	(7,459)	30-day; noninterest-bearing	Unsecured, no impairment
Shangri-La Fijisian Resort	—	—	—	626,952	626,952	Payable on demand; noninterest-bearing	Unsecured, no impairment
Others	14,251,075	4,724,217	11,541,095	7,173,422	3,942,584	30-day; noninterest-bearing	Unsecured, no impairment
	P107,151,798	P65,440,417	P80,444,717	P60,508,644	P31,390,165		
Group's share in affiliates' expenses (see Note 18)							
TECCC	P—	P634,940	P576,027	P—	P73,142	30-day; noninterest-bearing	Unsecured, no impairment
TSFSPCC	—	560,096	214,679	—	320	30-day; noninterest-bearing	Unsecured, no impairment
Others	3,089,103	482,761	470,906	872,714	98,375	30-day; noninterest-bearing	Unsecured, no impairment
	P3,089,103	P1,677,797	P1,261,612	P872,714	P171,837		

Transactions with associates

- On February 17, 2012, the Board of the Parent Company passed and approved a resolution wherein it will act as a surety to the loan of FBShi, now SGCPI, the surviving entity in a merger as discussed in Notes 12 and 19.
- Sharing of expenses with associates.

	Amount/Volume			Outstanding Balance		Terms	Conditions
	2015	2014	2013	2015	2014		
Associates' share in Group's expenses							
ISPI	P305,792	P703,105	P604,466	P3,899,990	P3,600,548	30-day; noninterest-bearing	Unsecured, no impairment
FBShi	—	9,493,210	11,220,668	—	—	30-day; noninterest-bearing	Unsecured, no impairment
	P305,792	P10,196,315	P11,825,134	P3,899,990	P3,600,548		

	Amount/Volume			Outstanding Balance		Terms	Conditions
	2015	2014	2013	2015	2014		
Group's share in an associate's expenses (see Note 18)							
SLPI	P-	P-	P-	P42,158,700	P42,158,700	Payable on demand; noninterest-bearing	Unsecured, no impairment

Outstanding balances from the above related party transactions as at December 31 follow:

	2015	2014
Receivables:		
Affiliates:		
Share in expenses	P60,508,644	P31,390,165
Management services	5,970,557	4,492,486
Reimbursed expenses	2,523,586	3,310,911
Associates	3,899,990	3,600,548
	P72,902,777	P42,794,110
Accounts payable and other current liabilities:		
Associate	P42,158,700	P42,158,700
Affiliates:		
Condominium dues	2,192,588	1,299,230
Share in expenses	872,714	171,837
	P45,224,002	P43,629,767

Compensation of key management personnel consist of the following:

	2015	2014	2013
Salaries and other short-term employee benefits	P39,026,177	P37,603,264	P36,457,991
Post-employment benefits	3,871,167	2,989,031	2,451,986
	P42,897,344	P40,592,295	P38,909,977

There are no stock option plans for officers and employees and no other long-term benefits aside from retirement benefits.

Related Party Transactions and Balances Eliminated During Consolidation

The terms, conditions, balances and the volume of related party transactions which were eliminated during consolidation are as follows:

a. Lease of Parent Company's land and the East Wing of the Shangri-La Plaza Mall to SLPC

	2015	2014	2013
Parent Company	P116,175,733	P116,469,419	P137,860,212
SLPC	84,909,852	85,209,600	78,171,706
SPSI	7,834,677	5,832,401	7,461,777

A portion of the Parent Company's land where the Shangri-La Plaza Mall is located is being leased to SLPC. The lease is for a period of 25 years from January 6, 1993. Rental revenue is based on a certain percentage of SLPC's annual rental revenue from mall operations plus a certain percentage of the carpark's net income.

In 2013, the Parent Company also leased to SLPC, the East Wing of the Shangri-La, the mall area of OSP, for a certain percentage of SLPC's rental revenue from the mall from January 1, 2013 to September 30, 2013.

b. Usufruct agreement between the Parent Company, SLPC and SPSI

On January 16, 2002, the Parent Company entered into a usufruct agreement with SLPC and SPSI. SPSI will be granted limited usufructuary rights over the Parent Company's and SLPC's parking spaces for a consideration equivalent to a certain percentage of SPSI's gross income less direct and indirect expenses. The agreement is subject to renewal on a yearly basis. Rental income of the Parent Company and SLPC, and rental expenses of SPSI are as follows:

	2015	2014	2013
SLPC	P9,333,842	P11,754,610	P10,043,538
Parent Company	7,834,678	5,811,469	7,461,777
	P17,168,520	P17,566,079	P17,505,315

c. Lease of East Wing of the Shangri-La Plaza Mall by SPRC to SLPC

	2015	2014	2013
Rental income	P50,843,417	P55,894,923	P13,695,318

SPRC and SLPC entered into a memorandum of agreement whereby SLPC will operate the mall establishment and constitute it as the East Wing of the Shangri-La. The lease is for a period of five years from October 1, 2013 and renewable upon mutual agreement by the parties. Rental revenue is based on a certain percentage of SLPC's annual rental revenue from that mall.

d. SPSI has an agreement with KSA, whereby SPSI is to manage and operate the parking slots of KSA, which commenced on January 1, 2009. The agreement is renewable upon mutual agreement by the parties. In consideration of the agreement, the parties agreed on the following revenue-sharing scheme: KSA shall receive the amount equivalent to 75% of the monthly gross parking revenue, less applicable VAT, while SPSI shall receive the amount equivalent to 25% of the monthly gross parking revenue, less applicable VAT. Income of KSA and expenses of SPSI, which are equivalent to KSA's share are as follows:

	2015	2014	2013
Rental income and expense	P29,549,203	P29,796,157	P26,512,768

e. The Parent Company leases its office space and SPRC leases a unit on Level 1 in Shangri-La Plaza Mall from SLPC.

The Parent Company's lease agreement is for a period of three years starting November 1, 2002. By mutual agreement of the parties, the contract of lease was renewed on May 16, 2010 for another three years which commenced on May 17, 2010 and ended on May 16, 2013. The Parent Company's rental expense is exclusive of VAT and subject to five percent escalation every year.

In 2010, SPRC and SLPC entered into a lease agreement, whereby SPRC shall lease a unit on Level 1 in Shangri-La for the higher of: (a) a minimum guarantee rent, or (b) a certain percentage of gross sales, exclusive of VAT. The lease commenced on May 1, 2010 and ended on April 30, 2014.

Rental expenses of the Parent Company and SPRC, and rental income of SLPC are as follows:

	2015	2014	2013
SPRC	P7,540,682	P7,319,287	P7,316,402
Parent Company	4,047,397	3,592,934	4,067,282
	P11,588,079	P10,912,221	P11,383,684

The Parent Company's and SPRC's refundable deposits from these transactions amounted to P425,424 as of December 31, 2015 and 2014.

- f. Management agreement between KSA and SPMSI:

	2015	2014	2013
Management fee	P3,084,414	P2,804,013	P2,549,103

KSA entered into a management agreement with SPMSI for a monthly fee of P150,000 with 10% annual escalation for a period of five years starting March 2008. The parties agree mutually on the renewal of the agreement. SPMSI shall provide on-site property leasing management including Head Office support services and periodic audit to ensure compliance with international practices; perform staff recruitment, training and performance evaluation; and perform financial management, including billing and collection and budget provisioning.

- g. In 2011, SPDI obtained an unsecured, noninterest-bearing, payable on or before December 31, 2012 loan from SHIL amounting to P2,317,500,000. As of December 31, 2015 and 2014, this loan has not been settled.
- h. Parent Company's dividend income from declarations of the following subsidiaries:

	2015	2014	2013
SPRC	P2,000,000,000	P-	P-
SLPC	725,000,000	725,000,000	600,000,000
KSA	317,400,000	423,200,000	185,150,000
SPDI	95,000,000	75,000,000	-
SPSI	4,400,000	4,200,000	3,500,000
SPMSI	5,300,000	4,000,000	-
	P3,147,100,000	P1,231,400,000	P788,650,000

- i. In 2013, the Parent Company and SPRC entered into a Deed of Absolute Sale for a parcel of land owned by the Parent Company with total square meter area of 9,852 located at Internal Road, Shangri-la Place, Mandaluyong City for a total consideration of P640,380,000. This resulted to a loss on sale of the land amounting to P317,379,436 which was eliminated during consolidation.
- j. Reimbursement of expenses paid for by a related party on behalf of a related party and vice-versa.
- k. Unsecured, noninterest-bearing receivables and payables between related parties.

Outstanding balances from the above related party transactions at December 31 which were eliminated during consolidation are as follows:

	2015	2014
Receivables of the Parent Company from:		
SGCHI	₱1,010,072,503	₱1,010,072,162
SPRC	707,416,648	853,625,220
SFBHI	690,928,983	690,928,665
SLPC	35,944,768	103,943,521
SPMSI	30,249,929	22,622,222
SPSI	5,569,821	7,984,922
SPDI	1,672,843	5,215,561
KMSC	1,062,775	1,037,217
KSA	254,158	426,229
	₱2,483,172,428	₱2,695,855,719
Payables of the Parent Company to:		
SPDI	₱311,168,985	₱620,480,000
SLPC	3,266,635	1,169,881
SPRC	16,447,198	505,996
	₱330,882,818	₱622,155,877
Receivables of:		
SHIL from SPDI	₱2,317,500,000	₱2,317,500,000
Others	2,680,401,325	2,549,461,236
	₱4,997,901,325	₱4,866,961,236

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

32. Commitments and Contingencies

On July 14, 1993, a complaint was initially filed before the Regional Trial Court (RTC) - Pasig by the principal contractor of the Shangri-La Plaza Mall against the Parent Company and the Board for the recovery of the balance of alleged unpaid construction work, compensatory and moral damages, legal fees and litigation costs totaling about ₱122,000,000, exclusive of interest. In the answer *ex abundante ad cautelam*, as a counterclaim, the Parent Company is asking for approximately ₱182,000,000 in overpayment plus ₱7,000,000 in damages and litigation costs. Due to technical reasons, the principal contractor re-filed the case on or about June 23, 1998 with the Construction Industry Arbitration Commission (CIAC).

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

The arbitration hearing, during which both the Parent Company and the principal contractor were given the opportunity to present their witnesses, commenced in December 2006 and ended with the decision of the Arbitral Tribunal promulgated on July 31, 2007. In its decision, the Arbitral Tribunal awarded to the principal contractor the sum of P46,905,987, and to the Parent Company, the sum of P8,387,484 (net award to the principal contractor was P38,518,503).

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

On June 5, 2009, the Parent Company filed a Petition for Review on Certiorari to the Supreme Court praying to issue an order or decision: (a) declaring the Parent Company as not liable to the principal contractor for unpaid progress billings based on the original scope of work, (b) ordering the principal contractor to pay the Parent Company P7,590,000 as liquidated damages, and (c) setting aside or reversing the Court of Appeal's decision and resolution insofar as they are adverse to the Parent Company. On a Petition for Review on Certiorari dated June 11, 2009, the principal contractor prayed to the Supreme Court to modify the decision and resolution of the Court of Appeals, to award the principal contractor the full amount of its claim. Both petitions are pending resolution by the Supreme Court as of March 4, 2016.

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

33. Lease Commitments

The Group entered into lease agreements with third parties covering the freehold buildings and their improvements. These leases generally provide for either (a) fixed monthly rent, or (b) minimum rent or a certain percentage of gross revenue, whichever is higher.

Rental income from percentage of gross revenue of lessee recognized in the profit or loss amounted to P121,620,707, P121,382,947 and P124,074,911 in 2015, 2014 and 2013, respectively.

The minimum future rental collections under non-cancellable operating leases follow:

	2015	2014	2013
Within one year	P2,082,234,650	P2,823,156,660	P1,918,343,828
After one year but not more than five years	2,126,994,971	4,642,450,449	1,475,431,761
More than five years	278,481,289	267,882,864	234,408,500
	P4,487,710,910	P7,733,489,973	P3,628,184,089

34. Fair Value Measurement and Financial Instruments

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as of December 31, 2015:

	Fair Value Measurement Using			Total
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets Measured at Fair Value				
Financial assets at FVPL	P34,882,100	P–	P–	P34,882,100
Investment properties:				
Land	–	15,701,020,110	–	15,701,020,110
Buildings	–	–	12,477,547,765	12,477,547,765
AFS financial assets:				
Unquoted	–	–	488,826,327	488,826,327
Quoted	16,046,515	–	–	16,046,515
Assets for which Fair Values are Disclosed				
Loans and receivables				
Receivables*	–	2,144,511,918	–	2,144,511,918
Refundable deposits	–	58,480,893	–	58,480,893
Liabilities for which Fair Values are Disclosed				
Accounts payable and other current liabilities**	–	3,398,805,799	–	3,398,805,799
Bank loans	–	12,464,329,487	–	12,464,329,487
Deposits from tenants	–	995,952,193	–	995,952,193
Accrued employee benefits***	–	10,170,813	–	10,170,813

* Excluding advances to contractors and suppliers of P688,909,442.

** Excluding advanced rental, customers' deposits, reservation payable, output VAT, deferred output VAT and withholding taxes.

*** Excluding accrued retirement benefits of P39,644,347.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as of December 31, 2014:

	Fair Value Measurement Using			Total
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets Measured at Fair Value				
Financial assets at FVPL	P33,012,524	P–	P–	P33,012,524
Investment properties:				
Land	–	13,428,400,270	–	13,428,400,270
Buildings	–	–	13,682,467,218	13,682,467,218
AFS financial assets:				
Unquoted	–	–	488,826,327	488,826,327
Quoted	13,196,515	–	–	13,196,515
Assets for which Fair Values are Disclosed				
Loans and receivables				
Receivables*	–	3,131,070,346	–	3,131,070,346
Refundable deposits	–	68,414,064	–	68,414,064
Liabilities for which Fair Values are Disclosed				
Accounts payable and other current liabilities**	–	3,077,322,955	–	3,077,322,955
Bank loans	–	12,148,668,905	–	12,148,668,905
Deposits from tenants	–	977,395,226	–	977,395,226
Accrued employee benefits***	–	12,875,707	–	12,875,707

* Excluding advances to contractors and suppliers of P1,031,179,038.

** Excluding advanced rental, customers' deposits, reservation payable, output VAT, deferred output VAT and withholding taxes.

*** Excluding accrued retirement benefits of P55,626,328.

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

There have been no assets and liabilities transferred between Level 1, Level 2 and Level 3 during 2015 and 2014.

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

Financial Assets at FVPL

The fair value of financial assets at FVPL is based on quoted market prices at the reporting date.

Cash and Cash Equivalents, Receivables, Accounts Payable and Other Current Liabilities, and Dividends Payable

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

Installment Contracts Receivable

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

Refundable Deposits and Deposits from Tenants

The fair values of deposits from tenants were based on the present value of estimated future cash flows using PDST – R2 rates at the reporting date. Discount ranges from 1.48% to 3.98% and 1.01% to 3.55% as of December 31, 2015 and 2014, respectively.

AFS Financial Assets

The fair value of quoted equity securities is based on quoted market prices as of the reporting date. The fair value of unquoted equity securities is not reasonably determinable.

Bank Loans

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

35. Financial Risk Management Objective and Policies

The Group's principal financial instruments comprise of cash and cash equivalents, financial assets at FVPL, loans and receivables, AFS financial assets and other financial liabilities. These are held primarily to finance the Group's operations, capital expenditures and to provide guarantees to support its operations. The Group's financial instruments, such as cash and cash equivalents, trade receivables and trade payables, arise directly from the conduct of the Group's operations.

The main risks arising from the use of the financial instruments are interest rate risk, credit risk and liquidity risk. Risk management is carried out by the Group's management under policies approved by the Board. The Group's management identifies and evaluates financial risks in close cooperation with the Group's operating units.

The main objective of the Group's financial risk management is to minimize the potential adverse effects of the unpredictability of financial markets on the Group's financial performance. The Board provides principles for overall risk management, as follows:

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The cash flows of the Group's bank loans that are exposed to interest rate risk as of December 31, 2015 are disclosed in Note 19.

Interest rates on all bank loans are based on the higher between the PDST-R2 rate and the BSP overnight borrowing rate.

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

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

The following table represents the impact on the Group's income before income tax brought about by reasonably possible change in interest rates, with all other variables held constant, as of December 31 until its next financial reporting date:

	Change in Interest Rate	Effect on Income before Income Tax
2015	Increase by 0.50%	P62,321,647
	Decrease by 0.50%	(62,321,647)
2014	Increase by 0.95%	45,754,940
	Decrease by 0.95%	(45,754,940)

There is no other effect on the Group's equity other than those already affecting profit or loss.

Credit Risk

Credit risk is the risk that the Group will incur financial losses because its counterparties failed to discharge their contractual obligations. The Group is exposed to credit risk from its operating activities (primarily trade receivables), including deposits with banks and other financial instruments. The Group has no significant concentration on credit risk.

Trade Receivables

Sales of residential condominium units that are on installment basis are supported by post-dated checks from the buyers. Titles to properties sold are not released unless full payment is received. In the case of leasing operation, tenants are subjected to credit evaluation and are required to put up security deposits and pay advance rentals, if necessary. The maximum exposure to credit risk at the reporting date is the expected cash flows from installment receivable and carrying value of rent receivable as disclosed in Note 7.

Financial Instruments and Cash Deposits

Credit risk from balances with banks is managed by the Group's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties to mitigate financial loss through counterparty's potential failure to make payments. The Group's maximum exposure to credit risk for the component of the statement of financial position at December 31, 2015 and 2014 is the carrying amounts as illustrated in Notes 5, 6, 7, 9, and 17 except for financial guarantees. The Group's maximum exposure relating to financial guarantees is noted in the liquidity table below.

The net maximum exposure to credit risk for cash in banks, after taking into account insurance on bank deposits, amounted to P96,278,904 in 2015 and P116,234,079 in 2014.

The following tables provide the aging analysis of receivables that are past due but not impaired under the Group's receivables account as of December 31:

2015						
	< 30 Days	60 - 90 Days	91 - 120 Days	121 - 150 Days	More than 150 Days	Total
Rent	P9,588,081	P11,859,834	P18,228,735	P3,611,922	P21,299,001	P64,587,573
Related parties	—	—	—	—	72,902,777	72,902,777

2014						
	< 30 Days	60 - 90 Days	91 - 120 Days	121 - 150 Days	More than 150 Days	Total
Rent	P37,175,507	P8,788,413	P5,107,592	P6,861,126	P17,010,052	P74,942,690
Related parties	—	—	—	—	42,794,110	42,794,110

Financial instruments classified under “neither past due nor impaired” include high grade credit quality instruments because there were few or no history of default on the agreed terms of the contract. “Past due and impaired” financial asset as disclosed in Note 7 pertains to those financial instruments that are long outstanding and have been provided with allowance for impairment losses.

The credit quality of the financial assets classified under neither past due nor impaired was determined as follows:

Cash and cash equivalents, financial assets at FVPL and AFS financial assets are based on the nature of the counterparties and the Group's internal rating system.

Receivables which are satisfactory pertains to receivables from existing and active tenants, customers, related parties, counter parties, officers and employees; while unsatisfactory pertains to receivables from tenants, customers, related parties and counter parties that have already ceased their respective operations, and officers and employees that are no longer employed by the Group.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to settle or meet its obligations on time or at reasonable prices. The Group maintains sufficient cash and cash equivalents in order to fund its operations. The Group monitors its cash flows and carefully matches the cash receipts from its condominium sales and leasing operations against cash requirements for its construction activities. The Group utilizes its borrowing capacity, if necessary, to further bolster its cash reserves.

The following tables summarize the maturity profile of financial assets compared with the contractual undiscounted payments of financial liabilities in order to provide a complete view of the Group's liquidity as of December 31.

	2015				Total
	Within 1 Year	Over 1 to 3 Years	Over 3 to 5 Years	Over 5 Years	
Financial Assets					
Financial assets at FVPL	P34,882,100	P–	P–	P–	P34,882,100
Loans and receivables:					
Cash and cash equivalents	4,041,169,742	–	–	–	4,041,169,742
Receivables:					
Installment contracts receivable*	3,767,852,227	1,539,869,897	1,344,248,187	–	6,651,970,311
Rent	194,320,946	–	–	–	194,320,946
Related parties	72,902,777	–	–	–	72,902,777
Advances to officers and employees	5,732,997	–	–	–	5,732,997
Interest	4,396,733	–	–	–	4,396,733
Others	51,129,262	–	–	–	51,129,262
AFS financial assets	504,872,842	–	–	–	504,872,842
	P8,677,259,626	P1,539,869,897	P1,344,248,187	P–	P11,561,377,710

Other Financial Liabilities					
Accounts payable and other current liabilities***	P3,462,487,081	P–	P–	P–	P3,462,487,081
Installment payment	1,448,222,777	3,950,798,052	2,909,638,392	–	8,308,659,221
Bank loans	884,166,667	4,157,500,000	4,170,000,000	3,298,333,333	12,510,000,000
Deposits from tenants	79,403,920	331,920,732	522,026,131	94,810,822	1,028,161,605
Accrued employee benefits****	–	–	–	10,170,813	10,170,813
	P5,874,280,445	P8,440,218,784	P7,601,664,523	P3,403,314,968	P25,319,478,720

*Expected cash flows from installment contract receivables as presented in Note 7.

***Excluding advanced rental, customers' deposits, reservation payable, output VAT, deferred output VAT and withholding taxes.

****Excluding accrued retirement benefits of P39,644,347.

	2014				Total
	Within 1 Year	Over 1 to 3 Years	Over 3 to 5 Years	Over 5 Years	
Financial Assets					
Financial assets at FVPL	P33,012,524	P–	P–	P–	P33,012,524
Loans and receivables:					
Cash and cash equivalents	2,911,004,820	–	–	–	2,911,004,820
Receivables:					
Installment contracts receivable	4,795,800,178	1,669,504,326	647,885,065	–	7,113,189,569
Rent	201,286,080	–	–	–	201,286,080
Related parties	42,794,110	–	–	–	42,794,110
Advances to officers and employees	7,127,724	–	–	–	7,127,724
Interest	1,697,524	–	–	–	1,697,524
Others	64,221,266	–	–	–	64,221,266
Cash in escrow***	352,027,489	–	–	–	352,027,489
AFS financial assets	502,822,842	–	–	–	502,822,842
	P8,911,794,557	P1,669,504,326	P647,885,065	P–	P11,229,183,948
Other Financial Liabilities					
Accounts payable and other current liabilities**	P2,979,365,856	P–	P–	P–	P2,979,365,856
Bank loans	583,333,333	1,870,833,334	1,312,500,000	8,382,002,238	12,148,668,905
Deposits from tenants	84,247,874	408,284,464	470,074,443	40,830,856	1,003,437,637
Accrued employee benefits****	–	–	–	12,875,707	12,875,707
	P3,646,947,063	P2,279,117,798	P1,782,574,443	P8,435,708,801	P16,144,348,105

*Excluding advanced rental, customers' deposits, reservation payable, output VAT, deferred output VAT and withholding taxes.

**Under input tax and other current assets.

****Excluding accrued retirement benefits of P55,626,328.

36. Capital Management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to stockholders, return capital to stockholders or issue new shares. No changes were made in the objectives, policies or processes in 2015, 2014 and 2013.

The Group monitors capital using a gearing ratio, which is net debt divided by capital. The Group includes within net debt bank loans less cash and cash equivalents. Capital pertains to total equity less NCI.

	2015	2014
Net Debt		
Bank loans	P12,464,329,487	P12,148,668,905
Less cash and cash equivalents	4,041,169,742	2,911,004,820
	<u>8,423,159,745</u>	<u>9,237,664,085</u>
Capital		
Total equity	32,301,582,765	27,784,333,224
Less NCI	6,370,409,789	3,965,795,878
	<u>25,931,172,976</u>	<u>23,818,537,346</u>
Gearing Ratio	32.48%	38.78%

The Group was able to meet its capital management objectives.

37. Note to Consolidated Statements of Cash Flows

In 2014, the principal noncash transaction under investing activities pertains to the acquired total assets amounting to P9,647,345,695 and total liabilities amounting to P9,453,381,223 as a result of the business combination (see Note 12).

38. Acronyms and Abbreviations

The following are the acronyms and abbreviations used in the consolidated financial statements with the meanings as specified below:

Acronyms/ Abbreviations	Meaning
AFS	– available-for-sale
ALM	– Asset-Liability Matching Study
APIC	– additional paid-in capital
BOA	– Board of Accountancy
BSDC	– Brown Swallow Development Corporation
BSP	– Bangko Sentral ng Pilipinas
BVI	– British Virgin Islands
CGU	– cash generating unit
CIAC	– Construction Industry Arbitration Commission
CWT	– Creditable withholding tax
DFFS	– Deposit for future stock subscription
EIR	– effective interest rate
ELHI	– EPHI Logistics Holdings, Inc.
EPRC	– Exchange Properties Resources Corporation
ESHRI	– EDSA Shangri-La Hotel and Resort, Inc.
EUL	– estimated useful lives
FBSHI	– Fort Bonifacio Shangri-la Hotel, Inc.
FRSC	– Financial Reporting Standards Council
FVO	– fair value option
FVPL	– fair value through profit or loss
Gipsev	– Gipsev Ltd.
GFA	– gross floor area
HK\$	– Hong Kong Dollar
HLURB	– Housing and Land Use Regulatory Board
HTM	– held to maturity
IAS	– International Accounting Standard
IASB	– International Accounting Standards Board
IFRIC	– International Financial Reporting Interpretations Committee
IFRS	– International Financial Reporting Standard
IPPI	– Ivory Post Properties, Inc.
ISPI	– Ideal Sites and Properties, Inc.
KMSC	– KPPI Management Services Corporation
KRC	– KPPI Realty Corporation
KSA	– KSA Realty Corporation
MBPI	– Martin B. Properties, Inc.
MCIT	– minimum corporate income tax
MOA	– memorandum of agreement
NCI	– non-controlling interests
NCRI	– New Contour Realty, Inc.
NOI	– Net operating income
NOLCO	– net operating loss carryover
NRV	– net realizable value
OCI	– other comprehensive income
OSD	– optional standard deduction

Acronyms/ Abbreviations	Meaning
OSP	– One Shangri-La Place Project
OSPCC	– One Shangri-La Place Condominium Corporation
PAS	– Philippine Accounting Standard
PDST-R2	– Philippine Dealing System Treasury Reference Rates
PFRS	– Philippine Financial Reporting Standards
PHIREF	– Philippine Interbank Reference Rate
POC	– percentage of completion
PSE	– Philippine Stock Exchange
PSI	– Perfect Sites, Inc.
RA	– Republic Act
RCIT	– regular corporate income tax
RTC	– Regional Trial Court
SEC	– Securities and Exchange Commission
SFBHI	– Shang Fort Bonifacio Holdings, Inc.
SGCHI	– Shang Global City Holdings, Inc.
SGCPI	– Shang Global City Properties, Inc.
SHIL	– Silver Hero Investments Limited
SLPC	– Shangri-La Plaza Corporation
SLPI	– Sky Leisure Properties, Inc.
SPDI	– Shang Property Developers, Inc.
SPMSI	– Shang Property Management Services, Inc.
SPRC	– Shang Properties Realty Corporation
SPSI	– SPI Parking Services, Inc.
SSP	– Shang Salcedo Place Project
TCT	– transfer certificates of title
TEC	– The Enterprise Center
TECCC	– The Enterprise Center Condominium Corporation
TRDCI	– The Rise Development Company, Inc.
TSFSP	– The St. Francis Shangri-La Place Project
TSFSPCC	– The St. Francis Shangri-la Place Condominium Corporation
TSGT	– The Shang Grand Tower Project
TSGTCC	– The Shang Grand Tower Condominium Corporation
US\$	– United States Dollar
VAT	– value-added tax
WACC	– weighted average cost of capital

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Sayoc & Delos Angeles

PROPERTY VALUER

Royal Asia Appraisal Corporation

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KEY DATES

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



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