



106172015000971

**SECURITIES AND EXCHANGE COMMISSION**

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Company Information

SEC Registration No. 0000145490  
Company Name SHANG PROPERTIES, INC.  
Industry Classification  
Company Type Stock Corporation

**Document Information**

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## COVER SHEET

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SEC Registration Number

[illegible]

(Company's Full Name)

[illegible]

(Business Address: No. Street City/Town/Province)

ATTY. FEDERICO G. NOEL, JR.  
(Contract Person)

**370-2700**  
(Company Telephone Number)

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Month Day  
(Fiscal Year)

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AMENDED  
(Form Type)

Month Day  
(Annual Meeting)

CONCLUSIONS

(Secondary License Type, If Applicable)

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Amended Articles Number/Section

Page 10 of 10

Total No. of Stockholders

10/10/2010

Domestic

11/11/2011

Foreign

To be accomplished by SEC Personnel concerned

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q (Amended)  
QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE  
SECURITIES REGULATION CODE

1. For the quarterly period ended : 31 March 2015
2. Commission Identification Number : 145490
3. BIR Tax Identification Number : 000-144-386

**SHANG PROPERTIES, INC.**

4. Exact name of the Issuer as specified in this charter:
5. Province, country or other jurisdiction of incorporation or organization: Not Applicable
6. Industry Classification Code:  (SEC Use Only)

Administration Offices, 5<sup>th</sup> Level, Shangri-La Plaza, EDSA corner Shaw Boulevard,

Mandaluyong City

1550

7. Address of issuer's principal office

Postal Code

(632) 370-2700

8. Issuer's telephone number, including area code
9. Former name, former address and former fiscal year, if changed since last report:
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sections 4 and 8 of the RSA.

<u>Title of each Class</u>	<u>Number of shares of common stock outstanding and amount of debt outstanding</u>
Common Stock	4,764,056,287 common shares

11. Are any or all of the securities listed on a Stock Exchange?

Yes [ x ]

No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange

12. Indicate by check mark whether the registrant:

- (a) Has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports).

Yes [ x ]

No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes ☒ No ☐

## PART 1 – FINANCIAL INFORMATION

### Item 1. Financial Statements

Please see attached.

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Please see attached.

## SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the Issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**SHANG PROPERTIES, INC.**  
Issuer

By:

  
KIN SUN ANDREW NG  
Group Financial Comptroller

  
FEDERICO G. NOEL, JR.  
Corporate Secretary

Date of Signing: 117 June 2015



## PART 1 – FINANCIAL INFORMATION

### **Item 1. Management Discussion and Analysis of Financial Condition and Results of Operations**

#### **Key Performance Indicators**

		March 31 2015	March 31 2014	Change
Turnover	(Php M)	2,264.1	1,577.0	43.6%
Profit attributable to shareholders	(Php M)	767.2	542.1	41.5%
Earnings per Share	(Php Ctv)	0.161	0.114	41.5%
Net Asset Value per share	(Php)	5.076	4.606	10.2%
Debt to Equity Ratio	(Ratio)	0.975:1	0.580:1	68.1%

- Turnover consists of Condominium Sales, Rental Revenue, Interest Income and Other Income. For the three (3) months ended March 31, 2015, the Group's consolidated revenues amounted to P2,264.1 million, higher by P687.1 million or 43.6% from P1,577 million of total revenues realized in the same period last year. The condominium sales showed significant increment of P670.2 million mainly due to higher sales of Condominium projects. Leasing operation posted a revenue growth of 4.3% or P27.8 million to P670.2 million in 2015 from P642.3 million in 2014. Interest and Other income decreased by P11 million.
- Profit attributable to equity holders of Parent Company amounted to P767.2 million, higher by P225.2 million or 41.5% compared with the same period last year.
- Earnings per share showed a positive variance of 41.5% to P0.161 from last year's P0.114.
- Net Asset value per share is calculated by dividing the total net asset of the Group (Total asset – Total liabilities and minority interest) by the number of shares outstanding. Net asset value per share increased by 10.2% mainly due to the income generated during the period.
- Debt to Equity measures the exposure of creditors to that of the stockholders. It gives an indication of how leveraged the group is. It is determined by dividing total debt by stockholder's equity. The Group's financial position remains solid with debt to equity ratio of 0.975:1 as of 31 March 2015 and 0.580:1 as of 31 March 2014.

## **Financial Condition**

Total assets of the Company amounted to P55.8 billion, an increase of P1.1 billion from total assets of P54.7 billion in December 31, 2014. The following are significant movements in the assets:

- Increase in cash and cash equivalents by P324.3 million mainly due to the collection from sales of condominium projects and proceeds from bank loans.
- Financial assets at fair value through profit or loss increased by P2.6 million or 8% due to the fair market value adjustment of the investments recognized during the period.
- Prepayments and other current assets increased by P411.2 million mainly due to the sales proceeds of The Rise Project was deposited in an escrow account as required by the Housing and Land Use Regulatory Board (HLURB). The said deposit will be released upon issuance of the License to Sell and Certificate of Registration of The Rise project.
- Increase in refundable deposits by P13.4 million or 19.6% mainly due to deposits paid by one of the property development project.
- Decrease in deferred income tax assets by P74 million mainly due to difference in accounting recognition of profit between installment method versus percentage of completion method for One Shangri-La Place project.
- Current ratio is 2.30:1 as of March 31, 2015 from 2.37:1 as of December 31, 2014.

Total liabilities increased by P649.0 million from P26.9 billion in 2014 to P27.5 billion in 2015 due to the following:

- Dividends payable increased by P404.9 million mainly due to declaration of cash dividends on March 27, 2015 amounting to P404,945,013 or P0.085 per share to all shareholders of record as of April 15, 2015.
- Income tax payable increased by P161.3 million due to taxable income generated during the period.
- Decrease in accrued employee benefits by P13.1 million due to the payments made during the period.
- Decrease in deferred lease income by 10.4% or P2.1 million mainly due to amortization of deferred lease income using a straight-line basis over the lease term.

## **Results of Operation**

Consolidated Net Income for the period ended March 31, 2015 amounted to P767.2 million higher by 41.5% from last year's P542.1 million due to the following:



A. Condominium Projects:

- Increase in sales by ₱670.2 million or 80.5% mainly due to the higher sales and completion level in various Projects.

B. Leasing Operations:

- Shangri-La Plaza's revenue decline by a slight ₱5.6 million or 1.5% mainly due to temporary close down of certain areas in the Main shopping mall due to renovation.
- The Enterprise Center's rental revenue showed an improvements amounting to ₱32.2 or 15.5% million mainly due to rental escalation and higher rental yields.

- C. Interest income and other income decrease by ₱11 million mainly due to the decrease in interest income on installment contract receivables.

Total Expenses of the Group amounted to ₱1,123.2 million, higher by ₱321.1 million compared with last year's ₱802.2 million. This was mainly due to the following:

- Increase in cost of sales by 48.6% due to higher sales of various development projects during the period.
- General and administrative expenses increase by ₱21.2 million or 21.2% primarily due to higher professional fees, utility cost and staff costs.
- Unrecovered reimbursable expenses from tenants increase by ₱3.5 million mainly due to the renovation of the main wing.
- Increase in depreciation by ₱1.1 million or 25.3% due to the depreciation of additional transportation equipment.
- Insurance expense increased by ₱494K or 12.5% mainly due to the additional insurance coverage of the shopping mall.
- Interest expense and bank charges increased by ₱20 million mainly due to interest on loans and bank charges paid during the year.

Share in net loss of associates decreased by ₱2.1 million mainly due to the consolidation of Shang Global City Properties to the group. The said company was previously reported as an associated company.

Increase in net income attributable to minority interest was mainly due to the higher level of income generated by KSA Realty Corporation and Shang Global City Properties during the period.

Provision for income tax is higher by ₱62.8 million mainly due to higher taxable income generated during the period against the same period last year.

### **Financial Soundness Indicators**

	End of March 2015	End of December 2014
Current Ratio <sup>1</sup>	2.303:1	2.368:1
Debt-to-equity ratio <sup>2</sup>	0.975:1	0.968:1
Asset-to-equity ratio <sup>3</sup>	1.975:1	1.968:1
	1Q 2015 <sup>7</sup>	1Q 2014
Interest rate coverage ratio <sup>4</sup>	19,394:1	19,390:1
Return on assets <sup>5</sup>	5.555%	3.965%
Return on equity <sup>6</sup>	10.952%	7.804%

<sup>1</sup>Current assets/current liabilities

<sup>2</sup>Total liabilities/stockholders' equity

<sup>3</sup>Total asset/stockholders' equity

<sup>4</sup>Income before interest and taxes/interest expense

<sup>5</sup>Net Income/average total assets

<sup>6</sup>Net Income/average stockholders' equity

<sup>7</sup>2Q1 Net income after tax annualized/average of end March-2015 and end Dec-14 assets and equity

### **Item 2. Information required by Part III, Paragraph (A) (2) (b) of "Annex C" of SRC Rule 12**

- There are no known trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely result in the registrant's liquidity increasing or decreasing in any material way.
- There are no known events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of obligation.
- There are no off material balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.
- There are no material commitments for capital expenditures.
- There are no known trends, events or uncertainties that have had or that are reasonably expected to have material favorable or unfavorable impact on net sales or revenues or income from continuing operations.



- There are no significant elements of income or loss that did not arise from the registrant's continuing operations.
- There are no material changes in periodical reports.
- There are no seasonal aspects that had a material effect on the financial statements.

### **Item 3. Other Required Disclosures**

A.) The attached interim financial reports were prepared in accordance with Philippine Financial Reporting Standard. The accounting policies and methods of computation followed in these interim financial statements are the same compared with the audited financial statements for the period ended December 31, 2014.

B.) Except as reported in the Management's Discussion and Analysis of Financial Condition and Results of Operations, there were no unusual items affecting assets, liabilities, equity, net income or cash flows for the interim period.

C.) There were no materials changes in estimates of amounts reported in prior period that have material effects in the current interim period.

D.) Except as disclosed in the Management's Discussion and Analysis of Financial Condition and Results of Operations, there were no other issuances, repurchases and repayments of debt and equity securities.

E.) There are no significant events happened subsequent to March 31, 2015 up to the date of this report that needs disclosure herein.

F.) For the required disclosure as per SEC letter dated October 29, 2008 on the evaluation of the company's risk exposure and financial instruments profile please see Note 10 of the attached interim financial statement.

**SHANG PROPERTIES INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
(Amounts expressed in Php)

	Notes	Unaudited March 31 2015	Audited December 31 2014
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		3,235,263,944	2,911,004,820
Financial assets at fair value through profit or loss		35,657,887	33,012,524
Receivables		4,255,448,802	4,162,249,384
Properties held for sale		5,706,760,312	5,773,117,694
Prepayments and other current assets		2,216,343,228	1,805,192,006
<b>Total Current Assets</b>		<b>15,449,474,174</b>	<b>14,684,576,428</b>
<b>Non-Current Assets</b>			
Investment in associates	4	411,549,316	410,790,229
Investment properties		27,214,796,646	27,110,867,488
Real estate development projects		11,524,326,332	11,211,283,922
Available-for-sale financial assets		502,822,842	502,822,842
Property and equipment	5	68,476,295	67,009,417
Goodwill		269,870,864	269,870,864
Refundable deposits		81,910,087	68,493,754
Deferred income tax assets		282,429,559	356,407,946
<b>Total Non-Current Assets</b>		<b>40,356,181,942</b>	<b>39,997,546,462</b>
<b>Total Assets</b>		<b>55,805,656,116</b>	<b>54,682,122,890</b>
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and other current liabilities		4,824,236,723	4,883,213,157
Current portion of bank loans	6	583,333,333	583,333,333
Current portion of deposits from tenants		484,423,000	484,423,000
Current portion of deferred lease income		18,163,625	18,163,625
Dividends payable		509,153,897	104,294,980
Income tax payable		288,877,084	127,582,324
<b>Total Current Liabilities</b>		<b>6,708,187,662</b>	<b>6,201,010,419</b>
<b>Non-Current Liabilities</b>			
Accrued employee benefits		55,388,015	68,502,036
Bank loans- net of current portion	6	11,761,914,739	11,565,335,572
Deposit for future stock subscription		1,959,000,000	1,959,000,000
Deferred income tax liabilities		6,551,371,925	6,589,901,691
Deposit from tenants - net of current portion		492,998,903	494,021,216
Deferred lease income - net of current portion		17,936,559	20,018,731
<b>Total Non-Current Liabilities</b>		<b>20,838,610,142</b>	<b>20,696,779,247</b>
<b>TOTAL LIABILITIES</b>		<b>27,546,797,804</b>	<b>26,897,789,666</b>
<b>Stockholders' Equity</b>			
Capital stock - Peso 1 par value		4,764,058,982	4,764,058,982
Additional paid-in capital		827,731,692	834,439,607
Treasury shares		(6,850,064)	(6,850,064)
Retained earnings		18,597,227,561	18,234,935,332
Other components of equity		(13,194,725)	(8,046,511)
Equity attributable to non-controlling interest		4,089,884,866	3,965,795,878
<b>Total equity</b>		<b>28,258,858,312</b>	<b>27,784,333,224</b>
<b>Total Liabilities and Equity</b>		<b>55,805,656,116</b>	<b>54,682,122,890</b>

(See accompanying notes to consolidated financial statements)



**SHANG PROPERTIES INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS**

(Amounts expressed in Php)

	UNAUDITED	
	FOR THE THREE (3) MONTHS ENDED	
	31-Mar-15	31-Mar-14
<b>INCOME</b>		
Condominium Sales	1,502,751,684	832,527,074
Rental	670,188,978	642,348,956
Others	91,139,295	102,090,720
	<u>2,264,079,956</u>	<u>1,576,966,750</u>
<b>EXPENSES</b>		
Cost of condominium sales	833,915,024	561,377,513
General and administrative	121,009,939	99,818,229
Taxes, licenses and fees	85,207,079	83,070,812
Unreimbursed share in common expenses	11,126,600	7,595,658
Depreciation	5,571,919	4,445,552
Insurance	4,455,725	3,961,698
Interest and bank charges	61,930,168	41,924,064
	<u>1,123,216,454</u>	<u>802,193,527</u>
<b>INCOME(LOSS) BEFORE SHARE IN PROFIT OF AN ASSOCIATE COMPANY</b>	1,140,863,502	774,773,223
<b>SHARE IN NET EARNINGS (LOSSES) OF ASSOCIATES</b>	(1,740,910)	(3,800,216)
<b>INCOME BEFORE INCOME TAX AND MINORITY INTEREST</b>	1,139,122,592	770,973,008
<b>PROVISION FOR INCOME TAX</b>	(247,796,357)	(152,213,243)
<b>INCOME BEFORE MINORITY INTEREST</b>	891,326,235	618,759,765
<b>INCOME ATTRIBUTABLE TO MINORITY INTEREST</b>	(124,088,988)	(76,684,371)
<b>NET INCOME</b>	767,237,247	542,075,394
<b>RETAINED EARNINGS, beg.</b>	18,234,935,327	16,142,418,632
<b>LESS: CASH DIVIDENDS</b>	(404,945,013)	(333,334,424)
<b>RETAINED EARNINGS, end.</b>	<u>18,597,227,561</u>	<u>16,351,159,602</u>
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	<u>0.161</u>	<u>0.114</u>

(See accompanying notes to consolidated financial statements)



**SHANG PROPERTIES INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Amounts expressed in Php)

	March 31, 2015 (Unaudited)	March 31, 2014 (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income before income tax	1,015,033,604	694,288,638
Adjustment for:		
Interest income	(62,394,918)	(72,155,433)
Interest expense	54,838,420	41,724,163
Depreciation and amortization	5,571,919	4,445,552
Dividend income	(4,669)	-
Share in profit (loss) of associate companies	1,740,910	3,800,216
Change in fair value of financial assets at FVPL	(2,645,364)	440,571
Cumulative translation adjustment	(5,148,214)	385,594
Unrealized foreign exchange losses (gains) - net	306,340	-
Operating income before working capital changes	1,007,298,028	672,929,301
Decrease (increase) in:		
Receivables	(93,199,419)	(673,227,499)
Properties held for sale	66,357,382	263,294,459
Prepayments and other current assets	(411,151,222)	75,774,941
Increase (decrease) in:		
Accounts payable and other current liabilities	17,105,414	180,902,658
Deferred lease income	(2,082,172)	-
Accrued employee benefits	(13,114,021)	(2,614,541)
Net cash generated from (used in) from operations	571,213,990	517,059,318
Interest received	62,095,443	72,155,433
<b>Net cash provided by operating activities</b>	<b>633,309,433</b>	<b>589,214,751</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to:		
Investment properties	(103,929,158)	(86,637,103)
Property and equipment	(7,038,798)	(5,237,912)
Investment in associates	(759,091)	(4,000,000)
Dividends received	4,669	3,541,681
Decrease (increase) in real estate development projects	(313,042,410)	-
Decrease (increase) in refundable deposits	(22,809,979)	(6,076,121)
<b>Net cash provided by (used in) investing activities</b>	<b>(447,574,767)</b>	<b>(98,409,455)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from loan availment, net of debt issue costs	342,412,500	200,000,000
Payments of:		
Loan principal	(145,833,333)	(177,976,190)
Interest	(56,726,055)	(41,658,686)
Cash dividends paid to:		
Stockholders	-	(330,739,235)
Increase (decrease) in deposits from tenants	(1,022,313)	12,398,667
<b>Net cash provided by (used in) financing activities</b>	<b>138,830,799</b>	<b>(337,975,444)</b>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>(306,340)</b>	<b>1,092,937</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>324,259,124</b>	<b>153,922,788</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>2,911,004,819</b>	<b>1,891,446,943</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>3,235,263,944</b>	<b>2,045,369,731</b>

(See accompanying notes to consolidated financial statements)

**SHANG PROPERTIES INC. & SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
(Amounts expressed in Php)

(UNAUDITED)

	Notes	Capital stock Pesos	Additional paid-in capital Pesos	Treasury Stock Pesos	Other Components of Equity	Retained earnings Pesos	Non-controlling Interest Pesos	Total Pesos
Balance as of 1 January 2014		4,764,058,982	834,439,607	(6,850,064)	342,764	16,142,418,632	3,056,381,448	24,790,791,370
Cumulative translation adjustment					385,594			385,594
Share in minority interest on preferred shares redemption	7					(333,334,424)	76,684,345	76,684,345
Cash dividends						542,075,395		(333,334,424)
Net income for the period								542,075,395
Balance as of 31 March 2014		4,764,058,982	834,439,607	(6,850,064)	728,358	16,351,159,604	3,133,065,793	25,076,602,280
Balance as of 1 January 2015		4,764,058,982	834,439,607	(6,850,064)	(8,046,511)	18,234,935,328	3,965,795,877	27,784,332,219
Cumulative translation adjustment					(5,148,214)			(5,148,214)
Share in minority interest on preferred shares redemption	7					(404,945,013)	124,088,988	124,088,988
Cash dividends						767,237,247		(404,945,013)
Net income for the period								767,237,247
Balance as of 31 March 2015		4,764,058,982	827,731,692	(6,850,064)	(13,194,725)	18,597,227,560	4,089,884,866	28,258,858,312

(See accompanying notes to consolidated financial statements)

SHANG PROPERTIES INC. AND SUBSIDIARIES  
AGING OF TRADE RECEIVABLES  
AS OF MARCH 31, 2015

TENANTS	TOTAL RECEIVABLES	P A S T D U E					
		CURRENT	1-30 DAYS	31-60 DAYS	61-90 DAYS	91-120 DAYS	OVER 120
MALL TENANTS	187,215,898	138,863,889	10,617,196	6,267,962	4,882,811	4,110,053	22,473,987
EDSA SHANGRI-LA HOTEL & RESORT	35,829,731	20,176,479	15,653,252				
TECC TENANTS	31,012,826	12,521,796	506,213	2,347,524	15,637,293		
INSTALLMENT CONTRACTS RECEIVABLES & OTHERS	4,001,390,347	4,001,390,347					
	4,255,448,802	4,172,952,511	26,776,661	8,615,485	20,520,104	4,110,053	22,473,987

Note: Installment Contracts Receivables includes current and long-term portion and are covered by post-dated checks from customers.

  
KINSUN ANDREW NG  
Treasurer



## SHANG PROPERTIES, INC. AND SUBSIDIARIES

### NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE THREE (3) MONTHS ENDED MARCH 31, 2015 AND 2014

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#### 1. 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 March 31, 2015 and December 31, 2014 and for each of the two years in the period ended March 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.
- 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 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:

	<u>Effective Percentages of Ownership</u> <u>As of 31.03.15</u>
Property Development:	
SPRC	100.00%
SPDI	100.00%
TRDCI	100.00%
SGCPI	60.00%
Leasing:	
SPSI	100.00%
SLPC	100.00%
KSA	52.90%
Real Estate:	
IPPI	100.00%
KRC	100.00%
MBPI	100.00%
NCRI	100.00%
PSI	100.00%
SFBHI	100.00%
SGCHI	100.00%
Property Management:	
KMSC	100.00%
SPMSI	100.00%
Others:	



	Effective Percentages of Ownership
	As of 31.03.15
Gipsev (BVI Company)	100.00%
SHIL (BVI Company)	100.00%
ELHI	60.00%

Except for Gipsev and SHIL, which were incorporated in the British Virgin Islands, all the other subsidiaries were incorporated in the Philippines.

#### Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year, except for the following new, amended and improvements to PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) which the Group has adopted during the year. However, they do not impact the consolidated financial statements of the Group, unless otherwise stated below:

- *Investment Entities (Amendments to PFRS 10, Consolidated Financial Statements, PFRS 12, Disclosure of Interests in Other Entities, and PAS 27, Separate Financial Statements)*  
These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The amendments must be applied retrospectively, subject to certain transition relief.
- *PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments)*  
These amendments clarify the meaning of 'currently has a legally enforceable right to offset' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and are applied retrospectively.
- *PAS 39, Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting (Amendments)*  
These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required.
- *PAS 36, Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendments)*  
These amendments remove the unintended consequences of PFRS 13, *Fair Value Measurement*, on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period.
- *Philippine Interpretation IFRIC 21, Levies*  
IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is



triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21.

- Annual Improvements to PFRSs (2010-2012 cycle) (PFRS 13, *Fair Value Measurement*)

In the 2010 – 2012 annual improvements cycle, seven amendments to six standards were issued, which included an amendment to PFRS 13, *Fair Value Measurement*. The amendment to PFRS 13 is effective immediately and it clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial.

- Annual Improvements to PFRSs (2011-2013 cycle) (PFRS 1, *First-time Adoption of PFRS*)

In the 2011 – 2013 annual improvements cycle, four amendments to four standards were issued, which included an amendment to PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards—First-time Adoption of PFRS*. The amendment to PFRS 1 is effective immediately. It clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first PFRS financial statements.

#### Future Changes in Accounting Policies

New standards issued but not yet effective as at the date of issuance of the consolidated financial statements are listed below. This is a listing of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt these standards when they become effective.

- PFRS 9, *Financial Instruments* – Classification and Measurement (2010 version)

PFRS 9 (2010 version) reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the



Group's financial assets, but will potentially have no impact on the classification and measurement of financial liabilities.

PFRS 9 (2010 version) is effective for annual periods beginning on or after January 1, 2015. This mandatory adoption date was moved to January 1, 2018 when the final version of PFRS 9 was adopted by the Philippine Financial Reporting Standards Council (FRSC). Such adoption, however, is still for approval by the Board of Accountancy (BOA).

- *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 adoption of this interpretation will result to a change in the revenue and cost recognition from percentage of completion method to completed contract method. The Group is still monitoring the impact of this new interpretation to its consolidated financial statements.

The following new standards and amendments issued by the IASB were already adopted by the FRSC but are still for approval by BOA.

*Effective January 1, 2015*

- *PAS 19, Employee Benefits – Defined Benefit Plans: Employee Contributions (Amendments)*  
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 January 1, 2015. It is not expected that this amendment would be 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)*  
The Annual Improvements to PFRSs (2010-2012 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group. They include:
  - *PFRS 2, Share-based Payment – Definition of Vesting Condition;*



- PFRS 3, *Business Combinations – Accounting for Contingent Consideration in a Business Combination*;
  - PFRS 8, *Operating Segments – Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*;
  - PFRS 13, *Fair Value Measurement – Short-term Receivables and Payables*;
  - PAS 16, *Property, Plant and Equipment – Revaluation Method – Proportionate Restatement of Accumulated Depreciation*;
  - PAS 24, *Related Party Disclosures – Key Management Personnel*; and
  - PAS 38, *Intangible Assets – Revaluation Method – Proportionate Restatement of Accumulated Amortization*.
- Annual Improvements to PFRSs (2011-2013 cycle)
- The Annual Improvements to PFRSs (2011-2013 cycle) are effective for annual periods beginning on or after January 1, 2015 and are not expected to have a material impact on the Group. They include:
- PFRS 1, *First-time Adoption of PFRS – Meaning of 'Effective PFRSs'*;
  - PFRS 3, *Business Combinations – Scope Exceptions for Joint Arrangements*;
  - PFRS 13, *Fair Value Measurement – Portfolio Exception*; and
  - PAS 40, *Investment Property*.

#### *Effective January 1, 2016*

- PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*. These amendments address an acknowledged inconsistency between the requirements in PFRS 10 and those in PAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. These amendments are effective from annual periods beginning on or after January 1, 2016.
  - PFRS 11, *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* (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.

- **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 would not apply.
- **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 effective prospectively 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 given that the Group has not used a revenue-based method to depreciate its non-current assets.
- **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 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. For first-time adopters of PFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to



PFRS. 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.

- Annual Improvements to PFRSs (2012-2014 cycle)  
The Annual Improvements to PFRSs (2012-2014 cycle) are effective for annual periods beginning on or after January 1, 2016 and are not expected to have a material impact on the Group. They include:
  - PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations – Changes in Methods of Disposal*;
  - PFRS 7, *Financial Instruments: Disclosures – Servicing Contracts*;
  - PFRS 7 - *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*;
  - PAS 19, *Employee Benefits – regional market issue regarding discount rate*; and
  - PAS 34, *Interim Financial Reporting – disclosure of information 'elsewhere in the interim financial report'*.

#### *Effective January 1, 2018*

- PFRS 9, *Financial Instruments – Hedge Accounting* and amendments to PFRS 9, PFRS 7 and PAS 39 (2013 version)  
PFRS 9 (2013 version) already includes the third phase of the project to replace PAS 39 which pertains to hedge accounting. This version of PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a derivative instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 (2013 version) has no mandatory effective date. The mandatory effective date of January 1, 2018 was eventually set when the final version of PFRS 9 was adopted by the FRSC. The adoption of the final version of PFRS 9, however, is still for approval by BOA.

The adoption of PFRS 9 is not expected to have any significant impact on the Group's consolidated financial statements.

- PFRS 9, *Financial Instruments* (2014 or final version)  
In July 2014, the final version of PFRS 9, *Financial Instruments*, was issued. 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 is permitted if the date of initial application is before February 1, 2015. The adoption of PFRS 9 is not expected to have any significant impact on the Group's consolidated financial statements.

The following new standard issued by the IASB has not yet been adopted by the FRSC.

- *IFRS 15, Revenue from Contracts with Customers*

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. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 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.

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## **2. 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, TEC and their related carpark operations. It also includes leasing of a portion of the Parent Company's land to 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 March 31, 2015 are as follows:

	Property Development	Leasing	Others	Total Segments	Eliminations	Consolidated
Revenues:						
Condominium sales	₱1,502,751,684	₱-	₱-	₱1,502,751,684	₱-	₱1,502,751,684
Rental	-	728,057,960	-	728,057,960	(57,868,982)	670,188,978
Cinema	-	14,022,643	-	14,022,643	-	14,022,643
Cost of condominium sales	(833,915,024)	-	-	(833,915,024)	-	(833,915,024)
Gross profit or revenues	668,836,660	742,080,603	-	1,410,917,263	(57,868,982)	1,353,048,281
Other income	13,773,573	7,534,146	6,467,941	27,775,660	(12,747,587)	15,028,074
Staff costs	(43,396,379)	(53,531,648)	13,482,390	(83,445,637)	15,962,276	(67,483,361)
General and administrative expenses	(21,680,719)	(31,509,667)	(336,192)	(53,526,578)	-	(53,526,578)
Taxes and licenses	(49,918,206)	(38,361,207)	3,072,334	(85,207,079)	-	(85,207,079)
Unreimbursed share in common expenses	-	(11,126,600)	-	(11,126,600)	-	(11,126,600)
Depreciation and amortization	(933,810)	(53,289,369)	48,651,259	(5,571,920)	-	(5,571,920)
Insurance	(5,058)	(4,433,778)	(16,890)	(4,455,726)	-	(4,455,726)
Segment results	566,676,061	557,362,481	71,320,842	1,195,359,384	(54,654,293)	1,140,705,091
Interest income	56,653,027	5,698,059	43,834	62,394,920	-	62,394,920
Foreign exchange gains - net	(108,952)	(198,805)	1,417	(306,340)	-	(306,340)
Share in net losses of associates	-	-	(1,740,910)	(1,740,910)	-	(1,740,910)
Interest expense and bank charges	(225,555)	(61,700,988)	(3,625)	(61,930,168)	-	(61,930,168)
Provision for income tax	(159,955,883)	(100,179,846)	12,339,372	(247,796,357)	-	(247,796,357)
Net income for the year	₱463,038,698	₱400,980,900	₱81,960,930	₱945,980,528	(₱54,654,293)	₱891,326,235
Segment assets	₱28,215,350,190	₱24,000,826,135	₱6,203,549,229	₱58,419,725,554	(₱3,025,618,754)	₱55,394,106,800
Associate companies	-	-	411,549,316	411,549,316	-	411,549,316
Total assets	₱28,215,350,190	₱24,000,826,135	₱6,615,098,545	₱58,831,274,870	(₱3,025,618,754)	₱55,805,656,116
Segment liabilities	₱21,986,457,839	₱12,600,045,963	₱5,137,849,441	₱39,724,353,243	(₱12,177,555,440)	₱27,546,797,803
Capital expenditures for the year	₱2,603,598	₱3,878,827	₱-	₱6,482,425	-	₱6,482,425

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
<b>Revenues:</b>						
Condominium sales	₱3,764,277,893	₱-	₱-	₱3,764,277,893	₱-	₱3,764,277,893
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 or revenues	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	-	(85,943,421)	-	(85,943,421)	-	(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	2,347,388,373	923,926,233	4,319,633,629	(238,420,344)	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	1,889	880,730	-	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	₱871,000,190	₱1,774,505,342	₱712,108,870	₱3,357,614,402	(₱238,420,344)	₱3,119,194,058
Segment assets	₱33,821,813,379	₱23,502,537,637	₱6,366,625,171	₱63,690,976,187	(₱9,419,643,526)	₱54,271,332,661
Associate companies	-	-	410,790,229	410,790,229	-	410,790,229
Total assets	₱33,821,813,379	₱23,502,537,637	₱6,777,415,400	₱64,101,766,416	(₱9,419,643,526)	₱54,682,122,890
Segment liabilities	₱19,605,625,096	₱12,198,862,918	₱5,138,635,900	₱36,943,123,914	(₱10,045,334,248)	₱26,897,789,666
Capital expenditures for the year	₱3,429,204	₱183,315,521	₱337,114	₱187,081,839	₱21,398,562	₱165,683,277



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### 3. Business Combination

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. It is then considered in the determination of goodwill.

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 CGUs 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.

#### 4. Associate companies

The breakdown of investment in associates is as follows:

	Pesos
Associate acquired thru the merger:	
Sky Leisure Properties Inc.	411,162,175
Other investments	387,141
Carrying value of investment in associates as of 31 March 2015	<u>411,549,316</u>

#### 5. Property and Equipment

This account consists of:

	Building and building improvement	Transportation Equipment	Furniture, Fixtures and other Office Equipment	Total
Net book value as at 1 January 2015	Php36,586,869	Php8,145,990	Php22,276,559	Php67,009,418
Additions	-	4,775,604	1,706,822	6,482,425
Depreciation	(1,483,135)	(1,306,441)	(2,782,344)	(5,571,920)
Reclassification/disposal	-	931,205	(374,832)	556,373
Net book value as at 31 March 2015	Php35,103,734	Php12,546,357	Php20,826,204	Php68,476,295

#### 6. Bank Loans

Principal payments during the period amounted to ₱146 million, while proceeds from loan availment amounted to ₱342 million used to finance the Group's various projects.

#### 7. Dividends

On 27 March 2015, the Board approved the declaration of ₱404,945,013 cash dividends or 0.085 per share to all stockholders of record as of April 15, 2015 to be taken from the unrestricted retained earnings of the Parent Company as of December 31, 2014.

#### 8. Related Party Transactions

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. 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.
- b. SPMSI provides management services to TECCC, TSFSPCC, and 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 P400,000, P100,000 and P100,000, respectively, inclusive of VAT, with an escalation rate of 10% per annum. The parties agree mutually on the renewal of the agreements.
- c. Reimbursement of expenses paid for by SLPC for ESHRI.
- d. Condominium dues charged by TSFSPCC and TECCC.
- e. SPSI operates and manages the parking facilities of ESHRI for fixed monthly concession fee starting January 1, 2010. This fee is included in the "Others" under "Other Income (Charges)".
- f. Sharing of expenses with affiliates.

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**9. Subsequent Events**

There are no significant subsequent events that happened as of March 31, 2015 that needs disclosure herein.

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**10. Fair Value Measurement and Financial Instruments**

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



	Fair Value Measurement Using			Total
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Assets Measured at Fair Value</b>				
Financial assets at FVPL	₱35,657,887	₱–	₱–	₱35,657,887
Investment properties:				
Land	–	13,428,400,270	–	13,428,400,270
Buildings	–	–	13,786,396,376	13,786,396,376
	–	13,428,400,270	13,786,396,376	27,214,796,646
	₱35,657,887	₱13,428,400,270	₱13,786,396,376	₱27,250,454,533
<b>Assets for which Fair Values are Disclosed</b>				
Loans and receivables				
Receivables	₱–	₱1,580,266,282	₱–	₱1,580,266,282
Refundable deposits	–	81,910,087	–	81,910,087
	–	1,662,176,369	–	1,662,176,369
AFS financial assets:				
Unquoted	–	–	488,826,327	488,826,327
Quoted	13,196,515	–	–	13,196,515
	13,196,515	–	488,826,327	502,022,842
	₱13,196,515	₱1,662,176,369	₱488,826,327	₱2,164,199,211
<b>Liabilities for which Fair Values are Disclosed</b>				
Accounts payable and other current liabilities*	₱–	₱3,363,231,142	₱–	₱3,363,231,142
Bank loans	–	12,345,248,071	–	12,345,248,071
Deposits from tenants	–	977,421,903	–	977,421,903
Accrued employee benefits**	–	5,195,729	–	5,195,729
	₱–	₱16,691,096,845	₱–	₱16,691,096,845

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

\*\*Excluding accrued retirement benefits of ₱50,192,286 in 2015.

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)	
<b>Assets Measured at Fair Value</b>				
Financial assets at FVPL	₱33,012,524	₱–	₱–	₱33,012,524
Investment properties:				
Land	–	13,428,400,270	–	13,428,400,270
Buildings	–	–	13,682,467,218	13,682,467,218
	–	13,428,400,270	13,682,467,218	27,110,867,488
	₱33,012,524	₱13,428,400,270	₱13,682,467,218	₱27,143,880,012
<b>Assets for which Fair Values are Disclosed</b>				
Loans and receivables				
Receivables*	₱–	₱1,811,049,656	₱–	₱1,811,049,656



	Fair Value Measurement Using			Total
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Refundable deposits	–	68,493,754	–	68,493,754
	–	1,879,543,410	–	1,879,543,410
AFS financial assets:				
Unquoted	–	–	488,826,327	488,826,327
Quoted	13,196,515	–	–	13,196,515
	13,196,515	–	488,826,327	502,022,842
	₱13,196,515	₱1,879,543,410	₱488,826,327	₱2,381,566,252

**Liabilities for which Fair  
Values are Disclosed**

Accounts payable and other current liabilities**	₱–	₱3,392,834,018	₱–	₱3,392,834,018
Bank loans	–	12,148,668,905	–	12,148,668,905
Deposits from tenants	–	978,444,217	–	978,444,217
Accrued employee benefits***	–	12,875,707	–	12,875,707
	₱–	₱16,532,822,847	₱–	₱16,532,822,847

\* Net of unamortized discount and unearned income of ₱4,270,960,875 in 2014 and advances to contractors and suppliers of ₱1,031,179,038.

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

\*\*\* Excluding accrued retirement benefits of ₱55,626,328

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 the period.

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. The quoted market prices used for financial assets held by the Group were the current bid prices.

*Cash and Cash Equivalents, Receivables, Accounts Payable and Other Current Liabilities, Dividends Payable and Accrued Employee Benefits*

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 approximates their carrying value as the interest rates they carry approximate the interest rates on comparable instruments in the market.

#### *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 MART-1 rates at the reporting date.

#### *AFS Financial Assets*

The fair value of quoted equity securities is based on market bid 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.

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### **11. 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 and capital expenditures. 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 March 31, 2015.

Interest rates on all bank loans are based on the higher between the PDST-F 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 interest-bearing 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 that are not included in the tables above 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 March 31, 2015 until its next financial reporting date:

Change in Interest Rate	Effect on Income before Income Tax
Increase by 0.95%	<b>P82,095,900</b>
Decrease by 0.95%	<b>P (82,095,900)</b>

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 losses because its counterparties failed to discharge their contractual obligations. The Group has no significant concentration on credit risk. 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 following table shows the maximum exposure to credit risk for each component of financial assets in the consolidated statements of financial position:

	March 31, 2015	December 31, 2014
Financial assets at FVPL	<b>P35,657,887</b>	<b>P33,012,524</b>
Loans and receivables:		
Cash and cash equivalents*	3,162,399,658	2,630,057,461
Receivables:		
Installment contracts receivable	2,956,387,108	2,842,228,694
Rent	282,235,635	201,286,080
Related parties	46,525,991	42,794,110
Advances to officers and employees	5,417,548	7,695,914
Interest	1,996,999	1,697,524
Others	31,730,062	30,578,550
Cash in escrow**	622,500,862	352,027,489
Refundable deposits	81,910,087	68,493,754
	<b>7,191,103,950</b>	<b>6,176,859,576</b>
AFS financial assets	<b>502,822,842</b>	<b>502,822,842</b>
	<b>P7,729,584,679</b>	<b>P6,712,694,942</b>

\* Excludes cash on hand of P72,864,286 in 2015 and P280,947,359 in 2014.

\*\* Under prepayments and other current assets.

The following tables provide information regarding the credit risk exposure of the Group by classifying its financial assets according to the credit ratings of the debtors as of March 31, 2015:

	2015			
	Neither Past Due nor Impaired		Past Due and Impaired	Total
	Non-Investment Grade: Satisfactory	Non-Investment Grade: Unsatisfactory		
Financial assets at FVPL	P35,657,887	P—	P—	P35,657,887
Loans and receivables:				
Cash and cash equivalents*	3,162,399,658	—	—	3,162,399,658
Receivables:				
Installment contracts receivable	2,956,387,108	—	—	2,956,387,108
Rent	282,235,635	—	—	282,235,635
Related parties	46,525,991	—	—	46,525,991
Advances to officers and employees	5,417,548	—	—	5,417,548
Interest	1,996,999	—	—	1,996,999
Others	31,730,062	—	8,056,440	39,786,502
Cash in escrow**	622,500,862	—	—	622,500,862
Refundable deposits	81,910,087	—	—	81,910,087
	7,191,103,949	—	8,056,440	7,199,160,389
AFS financial assets	502,822,842	—	—	502,822,842
	P7,729,584,679	P—	P 8,056,440	P7,737,641,119

\* Excludes cash on hand of P72,864,286 in 2015 and P280,947,359 in 2014.

\*\* Under prepayments and other current assets.

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” 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 not 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 March 31, 2015:

	2015				Total
	Within 1 Year	Over 1 to 3 Years	Over 3 to 5 Years	Over 5 Years	
<b>Financial Assets</b>					
Financial assets at FVPL	₱ 35,657,887	₱—	₱—	₱—	₱ 35,657,887
Loans and receivables:					
Cash and cash equivalents	3,235,263,944	—	—	—	3,235,263,944
Receivables:					
Installment contracts receivable	2,956,387,108	—	—	—	2,956,387,108
Rent	282,235,635	—	—	—	282,235,635
Related parties	46,525,991	—	—	—	46,525,991
Advances to officers and employees	5,417,548	—	—	—	5,417,548
Interest	1,996,999	—	—	—	1,996,999
Others	31,730,062	—	—	—	31,730,062
Cash in escrow*	622,500,862	—	—	—	622,500,862
Refundable deposits		81,910,087	—	—	81,910,087
	7,182,058,149	81,910,087	—	—	7,263,968,236
AFS financial assets	502,822,842	—	—	—	502,822,842
	₱7,720,538,878	₱81,910,087	₱—	₱—	₱7,802,448,965
<b>Other Financial Liabilities</b>					
Accounts payable and other current liabilities**	₱3,363,231,141	₱—	₱—	₱—	₱3,363,231,141
Bank loans	437,500,000	1,895,000,000	2,478,333,333	7,534,414,738	12,345,248,071
Deposits from tenants	484,423,000	492,998,903	—	—	977,421,903
Accrued employee benefits***	12,972,408	—	—	—	12,972,408
	₱4,298,126,549	₱2,387,998,903	₱2,478,333,333	₱7,534,414,738	₱16,698,873,523

\* Under prepayments and other current assets.

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

\*\*\* Excluding accrued retirement benefits of ₱42,415,608.