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**SECURITIES AND EXCHANGE COMMISSION**

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Company Name SHANG PROPERTIES, INC.  
Industry Classification  
Company Type Stock Corporation

**Document Information**

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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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(Form Type)

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Month Day  
(Annual Meeting)

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Amended Articles Number/Section

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Total No. of Stockholders

Page 10

Domestic

Page 10 of 10

Foreign

To be accomplished by SEC Personnel concerned

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# SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-Q

### QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE

1. For the quarterly period ended : 30 June 2016
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)
7. Address of issuer's principal office Level 5, Shangri-La Plaza Mall, EDSA cor Shaw Boulevard, Mandaluyong City 1550 Postal Code
8. Issuer's telephone number, including area code (632) 370-2700

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.

**Title of each Class**  
**Common Stock**

Number of shares of common stock  
outstanding and amount of debt outstanding  
4,764,056,287 common shares

11. Are any or all of the securities listed on a Stock Exchange?  
Yes ☒ 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 ☒ 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: 11 August 2016



## **PART 1 – FINANCIAL INFORMATION**

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

#### **Key Performance Indicators**

		June 30 2016	June 30 2015	Change
Turnover	(Php M)	4,809.0	4,070.7	18.14%
Profit attributable to shareholders	(Php M)	1,252.7	1,323.0	-5.31%
Earnings per share	(Php Ctv)	0.263	0.278	-5.31%
Net asset value per share	(Php)	5.613	5.193	8.09%
Debt to equity ratio	(Ratio)	0.886:1	0.904:1	-2.00%

- Turnover consists of condominium sales, rental revenue, hotel operations and other income. For the six (6) months ended June 30, 2016, the Group's consolidated revenues amounted to P4,809.0 M (million), higher by P738.3M or 18.14% from P4,070.7M of total revenues realized in the same period last year. The condominium sales showed a net increase of P285.9M mainly due to higher sales of various condominium projects. Rental revenue increased by P23.7M mainly due to rental escalation and higher rental yields of The Enterprise Center as compared to the same period last year. Also, for the first half of 2016, Shangri-La at Fort commenced its operations and contributed income from its hotel services amounting to P372.9M. Interest income and other income increased by P55.9M.
- Profit attributable to equity holders of Parent Company amounted to P1,252.7M, lower by P70.3M or 5.31% compared with the same period last year.
- Earnings per share showed a negative variance of 5.31% to P0.263 from last year's P0.278.
- 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 8.09% mainly due to the higher equity 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 0.886:1 as of June 30, 2016 and 0.904:1 as of June 30, 2015.

## **Financial Condition**

Total assets of the Company amounted to P60.6B (billion), an increase of P1.3B from total assets of P59.3B in December 31, 2015. The following are significant movements in the assets:

- Decrease in cash and cash equivalents by P490.9M mainly due to acquisition of additional ownership interest of a subsidiary.
- Increase in receivables by P533.6M mainly due to increased sales of condominium units of various projects for the first half of 2016 and increase in advances to contractors for the on-going condominium projects.
- Decrease in properties held for sale by P669.5M mainly due to recognition of units sold of various condominium projects.
- Decrease in real estate development projects by P2,855.8M mainly due to the completion of Shangri-La at the Fort hotel project. The cost of properties was reclassified as property and equipment.
- Increase in property and equipment by P4,484.3M mainly due to completion of hotel project. The cost was reclassified from real estate development projects.
- Recognition of goodwill amounting to P146.7M (excess acquisition cost over fair value of net assets) as a result of the acquisition of additional ownership interest in a subsidiary.
- The deferred tax assets decreased by P39.1M mainly due to the difference in accounting of gross profit as shown in the financial statements and income tax reporting. As more percentage of work is completed and recognized in the financial statements, the difference in reporting with income tax decreases, hence this decreases the deferred tax asset.
- Current ratio is 1.80:1 as of June 30, 2016 from 2.05:1 as of December 31, 2015.

Total liabilities increased by P1.4B from P27.0B in 2015 to P28.4B in 2016 due to the following:

- Increase in accounts payable and other current liabilities by P894.5M due to higher payable to contractors for the construction of various projects.
- Increase in bank loans due to additional loan availment of Shangri-La at Fort project amounting to P694.8M.
- Decrease in income tax payable by P49.7M due to payments made during the period.
- Decrease in dividends payable by P117.4M due to the payments made to stockholders of cash dividends during the period.



- Decrease in deferred lease income by P2.5M mainly due to lower rates used to revalue the rental deposits of The Enterprise Center to 2.1% this year from 2.4% in 2015. The difference between the discounted and faced value of the deposits was recognized as deferred lease income and is amortized on a straight line basis over the lease term and is recognized in the profit or loss as additional rent income.

### **Results of Operation**

Consolidated net income for the period ended June 30, 2016 amounted to P1,252.7M lower by 5.31% from last year's P1,323.0 due to the following:

- Increase in condominium sales by P285.9M mainly due to the higher sales and completion levels of various condominium projects.
- Shang Fort commenced its operations during the first half of 2016 and contributed revenue from its hotel services amounting to P372.9M.
- Interest income and other income increased by P55.9M mainly due to the increase in interest on installment contract receivable.

Total expenses of the Group amounted to P2.8B, higher by P785.8M compared with last year's P2.0B. This was mainly due to the following:

- Increase in cost of condominium sales by P184.1M mainly due to higher condominium sales for the period.
- Cost of hotel services at Shangri-La at Fort amounting to P651.9M due to commencement of operations during the first half of the year.
- Decrease in taxes and licenses by P9.2M mainly due timing difference of amortization for real property taxes.
- Recovery of reimbursable expenses improved by P20.5M mainly due to lower utility cost incurred during the period compared to the same period in 2015.
- Decrease in depreciation by P1.6M mainly due to the fully depreciated transportation equipment.
- Increase in insurance expense by P1.5M mainly due to the additional insurance coverage of the properties.
- Decrease in interest and bank charges by P28.3M mainly due to partial repayment of loans of the Parent Company in May 2015.

Increase in net income attributable to minority interest by P31.1M mainly due to share of higher income generated from KSA Realty Corporation and Shang Global City Properties Inc. during the period.

## **Financial Soundness Indicators**

	<b>End of June 2016</b>	<b>End of December 2015</b>
Current Ratio <sup>1</sup>	1.80:1	2.05:1
Debt-to-equity ratio <sup>2</sup>	0.89:1	0.84:1
Asset-to-equity ratio <sup>3</sup>	1.89:1	1.84:1
	2Q 2016 <sup>7</sup>	2Q 2015
Interest rate coverage ratio <sup>4</sup>	28.07:1	21.14:1
Return on assets <sup>5</sup>	4.18%	4.84%
Return on equity <sup>6</sup>	7.78%	9.36%

<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>2Q Net income after tax annualized/average of end June 2016 and end December 2015 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, 2015.
- 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 June 30, 2016 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 STATEMENTS OF FINANCIAL POSITION**  
(Amounts expressed in Php)

	Notes	Unaudited June 30 2016	Audited December 31 2015
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents		3,550,289,008	4,041,169,742
Financial assets at fair value through profit or loss		35,570,740	34,882,100
Receivables		2,706,047,164	2,172,434,657
Properties held for sale		6,491,253,935	7,160,774,272
Input tax and other current assets		1,846,235,607	1,765,695,509
<b>Total Current Assets</b>		<b>14,629,396,453</b>	<b>15,174,956,280</b>
<b>Non-Current Assets</b>			
Installment contract receivable - net of current portion		660,986,703	660,986,703
Investments in associates and joint venture	4	494,451,034	491,948,350
Investment properties		28,245,613,732	28,178,567,875
Real estate development projects		10,721,097,802	13,576,917,290
Available-for-sale financial assets		504,872,842	504,872,842
Property and equipment	5	4,619,573,701	135,297,925
Goodwill		416,580,156	269,870,864
Deferred income tax assets		196,784,819	235,860,271
Other noncurrent assets		63,564,458	63,411,421
<b>Total Non-Current Assets</b>		<b>45,923,525,247</b>	<b>44,117,733,541</b>
<b>Total Assets</b>		<b>60,552,921,700</b>	<b>59,292,689,821</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>Current Liabilities</b>			
Accounts payable and other current liabilities		6,451,866,022	5,557,385,891
Current portion of:			
Installment payable		153,152,398	153,152,398
Bank loans	6	884,166,666	867,751,562
Deposits from tenants		477,494,580	477,494,580
Deferred lease income		6,520,818	6,520,818
Income tax payable		133,573,190	183,238,555
Dividends payable		31,102,885	148,464,960
<b>Total Current Liabilities</b>		<b>8,137,876,560</b>	<b>7,394,008,764</b>
<b>Non-Current Liabilities</b>			
Installment payable - net of current portion		686,942,867	709,915,105
Accrued employee benefits		48,031,983	49,815,160
Bank loans- net of current portion	6	12,274,912,821	11,596,577,925
Deferred income tax liabilities		6,727,589,033	6,688,462,938
Deposit from tenants - net of current portion		551,972,203	538,150,247
Deferred lease income - net of current portion		11,693,042	14,176,917
<b>Total Non-Current Liabilities</b>		<b>20,301,141,949</b>	<b>19,597,098,292</b>
<b>Total Liabilities</b>		<b>28,439,018,509</b>	<b>26,991,107,056</b>
<b>Stockholders' Equity</b>			
Capital stock:			
Common stock - P1 par value		4,764,058,982	4,764,058,982
Additional paid-in capital		834,439,607	834,439,607
Treasury shares		(6,850,064)	(6,850,064)
Other components of equity		(7,209,780)	(7,126,043)
Retained earnings		21,146,964,819	20,346,650,494
Equity attributable to non-controlling interest		5,382,499,628	6,370,409,789
<b>Total Equity</b>		<b>32,113,903,191</b>	<b>32,301,582,765</b>
<b>Total Liabilities and Equity</b>		<b>60,552,921,700</b>	<b>59,292,689,821</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 ENDI		UNAUDITED FOR THE SIX (6) MONTHS ENDED	
	30-Jun-16	30-Jun-15	30-Jun-16	30-Jun-15
<b>INCOME</b>				
Condominium sales	1,699,082,792	1,073,298,965	2,861,972,196	2,576,050,649
Rental	676,409,099	659,373,320	1,353,214,035	1,329,562,297
Hotel operations	304,306,932	-	372,860,826	-
Others	133,164,401	73,906,182	220,941,075	165,045,476
	<u>2,812,963,224</u>	<u>1,806,578,467</u>	<u>4,808,988,132</u>	<u>4,070,658,423</u>
<b>EXPENSES</b>				
Cost of condominium sales	988,561,101	625,497,520	1,643,500,373	1,459,412,544
Cost of hotel operations	389,758,770	-	651,910,205	-
General and administrative	135,072,569	132,009,495	260,960,160	253,019,434
Taxes, licenses and fees	42,798,932	34,853,110	110,855,756	120,060,189
Unreimbursed share in common expenses	6,572,120	14,591,285	5,242,718	25,717,885
Depreciation	4,693,759	5,513,516	9,436,772	11,085,435
Insurance	5,352,491	4,401,497	10,323,956	8,857,222
Interest and bank charges	36,416,100	41,658,684	75,310,707	103,588,851
	<u>1,609,225,842</u>	<u>858,525,108</u>	<u>2,767,540,646</u>	<u>1,981,741,561</u>
<b>INCOME BEFORE SHARE IN LOSS OF AN ASSOCIATE COMPANY</b>	<u>1,203,737,382</u>	<u>948,053,359</u>	<u>2,041,447,486</u>	<u>2,088,916,862</u>
<b>SHARE IN LOSS OF AN ASSOCIATED COMPANY</b>	<u>(793,570)</u>	<u>(796,135)</u>	<u>(2,497,311)</u>	<u>(2,537,044)</u>
<b>INCOME BEFORE TAX</b>	<u>1,202,943,812</u>	<u>947,257,224</u>	<u>2,038,950,176</u>	<u>2,086,379,817</u>
<b>PROVISION FOR INCOME TAX</b>	<u>(313,115,974)</u>	<u>(261,686,234)</u>	<u>(501,261,955)</u>	<u>(509,482,591)</u>
<b>INCOME BEFORE MINORITY INTEREST</b>	<u>889,827,839</u>	<u>685,570,990</u>	<u>1,537,688,220</u>	<u>1,576,897,226</u>
<b>MINORITY INTEREST</b>	<u>(166,053,221)</u>	<u>(129,825,712)</u>	<u>(284,991,465)</u>	<u>(253,914,700)</u>
<b>NET INCOME</b>	<u>723,774,618</u>	<u>555,745,278</u>	<u>1,252,696,755</u>	<u>1,322,982,526</u>
<b>RETAINED EARNINGS, beg.</b>	<u>20,422,987,030</u>	<u>18,597,227,562</u>	<u>20,346,650,494</u>	<u>18,234,935,327</u>
<b>LESS: CASH DIVIDENDS</b>	<u>203,171</u>	<u>181,785</u>	<u>(452,382,432)</u>	<u>(404,763,228)</u>
<b>RETAINED EARNINGS, end.</b>	<u>21,146,964,819</u>	<u>19,153,154,625</u>	<u>21,146,964,819</u>	<u>19,153,154,625</u>
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	<u>0.15</u>	<u>0.12</u>	<u>0.26</u>	<u>0.28</u>

(See accompanying notes to consolidated financial statements)

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

	Notes	June 30, 2016 (Unaudited)	June 30, 2015 (Unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net Income before income tax		2,038,950,176	2,086,379,818
Adjustment for:			
Interest income		(124,154,420)	(106,224,832)
Interest expense		74,736,699	96,220,996
Depreciation and amortization		9,436,772	11,085,435
Cumulative translation adjustment		(83,737)	(5,073,696)
Dividend income		(3,847,151)	(3,808,328)
Change in fair value of financial assets at FVPL		(688,640)	(3,647,231)
Share in profit (loss) of associate companies		2,497,311	2,537,044
Unrealized foreign exchange losses (gains) - net		766,061	(511,367)
Operating income before working capital changes		1,997,613,070	2,076,957,838
Decrease (increase) in:			
Receivables		(533,612,507)	561,674,638
Properties held for sale		669,520,338	(245,685,803)
Input tax and other current assets		(80,540,097)	(622,407,606)
Increase (decrease) in:			
Accounts payable and other current liabilities		843,795,884	(28,079,680)
Deferred lease income		(2,483,874)	(4,112,723)
Accrued employee benefits		(1,783,177)	(18,542,073)
Net cash generated from (used in) from operations		2,892,509,636	1,719,804,590
Income taxes paid		(541,582,223)	(333,953,967)
Interest received		126,791,022	107,422,071
<b>Net cash provided by operating activities</b>		<b>2,477,718,435</b>	<b>1,493,272,694</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to:			
Investment properties		(67,045,857)	(246,900,752)
Property and equipment		(227,409,292)	(11,557,989)
Investment in associates		(2,502,684)	(2,962,955)
Acquisition of additional interest on a subsidiary		(1,253,988,768)	—
Decrease (increase) in real estate development projects		(1,484,637,704)	(790,813,082)
Decrease (increase) in other assets		(153,037)	(54,624,061)
Dividends received		3,847,151	3,808,328
<b>Net cash used in investing activities</b>		<b>(3,031,890,191)</b>	<b>(1,103,050,509)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from loan availment, net of debt issue costs		694,750,000	868,437,500
Payments of:			
Loan principal		—	(1,895,833,333)
Interest		(74,770,366)	(108,571,521)
Cash dividends paid to stockholders		(569,744,507)	(402,288,256)
Increase (decrease) in deposits from tenants		13,821,956	2,289,784
<b>Net cash used in financing activities</b>		<b>64,057,083</b>	<b>(1,535,965,826)</b>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
		(766,061)	511,367
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(490,880,734)</b>	<b>(1,145,232,274)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>4,041,169,742</b>	<b>2,911,004,819</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>3,550,289,008</b>	<b>1,765,772,545</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	Additional paid-in capital	Treasury stock	Other components of equity	Retained earnings	Non-controlling Interest	Total
		Pesos	Pesos	Pesos	Pesos	Pesos	Pesos	Pesos
Balance as of 1 January 2015		4,764,058,982	834,439,607	(6,850,064)	(8,046,511)	18,234,935,327	3,965,795,878	27,784,333,219
APIC from Consolidation of SFBHI and SGCHI		-	(6,706,915)	-	-	-	-	(6,706,915)
Cumulative translation adjustment		-	-	-	(5,073,696)	-	-	(5,073,696)
Share in minority interest on preferred shares redemption		-	-	-	-	-	65,514,700	65,514,700
Cash dividends	7	-	-	-	-	(404,763,228)	-	(404,763,228)
Net income for the period		-	-	-	-	1,322,982,526	-	1,322,982,526
Balance as of 30 June 2015		4,764,058,982	827,731,692	(6,850,064)	(13,120,207)	19,153,154,626	4,031,310,578	28,756,286,606
Balance as of 1 January 2016		4,764,058,982	834,439,607	(6,850,064)	(7,126,043)	20,346,650,494	6,370,409,789	32,301,582,765
Cumulative translation adjustment		-	-	-	(83,737)	-	-	(83,737)
Acquisition of non-controlling interest		-	-	-	-	-	(1,272,901,627)	(1,272,901,627)
Cash dividends	7	-	-	-	-	(452,382,432)	-	(452,382,432)
Net income for the period		-	-	-	-	1,252,696,755	284,991,465	1,537,688,220
Balance as of 30 June 2016		4,764,058,982	834,439,607	(6,850,064)	(7,209,780)	21,146,964,819	5,382,499,628	32,113,903,191

(See accompanying notes to consolidated financial statements)

SHANG PROPERTIES INC. AND SUBSIDIARIES  
AGING OF TRADE RECEIVABLES  
AS OF JUNE 30, 2016

TENANTS	TOTAL RECEIVABLES	CURRENT	1-30 DAYS	P A S T     D U E		
				31-60 DAYS	61-90 DAYS	OVER 90
MALL TENANTS	208,294,790	157,172,316	7,664,971	7,906,237	5,536,527	30,014,739
EDSA SHANGRI-LA HOTEL & RESORT	25,065,934	7,807,651	17,258,282			
TECC TENANTS	18,425,199	4,608,245	610,427	427,007	12,779,521	
INSTALLMENT CONTRACTS RECEIVABLES & OTHERS	2,454,261,241	2,454,261,241				
	<u>2,706,047,164</u>	<u>2,623,849,453</u>	<u>25,533,680</u>	<u>8,333,244</u>	<u>18,316,048</u>	<u>30,014,739</u>

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

  
KINSON ANDREW NG  
Treasurer

## SHANG PROPERTIES, INC. AND SUBSIDIARIES

### NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE SIX (6) MONTHS ENDED JUNE 30, 2016 AND 2015

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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 June 30, 2016 and December 31, 2015 and for each of the two years in the period ended June 30, 2016.

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 non-controlling interest (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 other comprehensive income (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:

	Effective Percentages of Ownership
	As of 30.06.16
Property Development:	
SPRC	100.00%
SPDI	100.00%
TRDCI	100.00%
SGCPI	60.00%
Leasing:	
SPSI	100.00%
SLPC	100.00%
KSA	70.04%
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:	
Gipsey (BVI Company)	100.00%
SHIL (BVI Company)	100.00%
ELHI	60.00%

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

#### 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*  
Philippine Accounting Standards (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 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.

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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 June 30, 2016 are as follows:

	Property Development	Leasing	Hotel Services	Others	Total Segments	Eliminations	Consolidated
Revenues:							
Condominium sales	₱2,861,972,196	₱—	₱—	₱—	₱2,861,972,196	₱—	₱2,861,972,196
Rental	—	1,468,874,363	—	—	1,468,874,363	(115,660,328)	1,353,214,035
Hotel services	—	—	372,860,826	—	372,860,826	—	372,860,826
Cinema	—	30,390,050	—	—	30,390,050	—	30,390,050
Cost of condominium sales	(1,643,500,373)	—	—	—	(1,643,500,373)	—	(1,643,500,373)
Cost of hotel services	—	—	(651,910,205)	—	(651,910,205)	—	(651,910,205)
Gross profit or revenues	1,218,471,823	1,499,264,413	(279,049,379)	—	2,438,686,857	(115,660,328)	2,323,026,529
Other income	30,202,506	44,215,343	—	18,297,914	92,715,763	(25,553,098)	67,162,665
Staff costs	(51,448,146)	(124,797,853)	—	(6,423,952)	(182,669,951)	23,410,241	(159,259,710)
General and administrative expenses	(40,537,522)	(60,134,667)	—	(1,111,763)	(101,783,952)	83,502	(101,700,450)
Taxes and licenses	(39,736,051)	(67,130,925)	—	(3,988,779)	(110,855,755)	—	(110,855,755)
Unreimbursed share in common expenses	—	(5,242,718)	—	—	(5,242,718)	—	(5,242,718)
Depreciation and amortization	(1,618,380)	(7,744,929)	—	(73,463)	(9,436,772)	—	(9,436,772)
Insurance	(98,161)	(10,213,895)	—	(11,900)	(10,323,956)	—	(10,323,956)
Segment results	1,115,236,069	1,268,214,769	(279,049,379)	6,688,057	2,111,089,516	(117,719,683)	1,993,369,833
Interest income	109,110,802	14,014,421	—	1,029,198	124,154,421	—	124,154,421
Foreign exchange gains – net	(768,009)	28,257	—	(26,309)	(766,061)	—	(766,061)
Share in net losses of associates	—	—	—	(2,497,311)	(2,497,311)	—	(2,497,311)
Interest expense and bank charges	(453,353)	(74,853,232)	—	(4,122)	(75,310,707)	—	(75,310,707)
Provision for income tax	(287,449,796)	(207,627,108)	—	(6,185,051)	(501,261,955)	—	(501,261,955)
Net income for the year	₱935,675,713	₱999,777,107	(₱279,049,379)	(₱995,538)	1,655,407,903	(117,719,683)	1,537,688,220
Segment assets	₱31,470,618,252	₱24,703,325,176	—	₱7,547,211,778	₱63,721,155,206	(₱3,662,684,540)	₱60,058,470,666
Associate companies	—	—	—	494,451,034	494,451,034	—	494,451,034
Total assets	₱31,470,618,252	₱24,703,325,176	—	₱8,041,662,812	₱64,215,606,238	(₱3,662,684,540)	₱60,552,921,700
Segment liabilities	₱19,905,656,855	₱10,767,274,039	—	₱5,336,838,393	₱36,009,769,287	(₱7,570,750,778)	₱28,439,018,509
Capital expenditures for the year	₱4,561,160,479	₱6,887,680	—	₱—	₱4,568,048,159	—	₱4,568,048,159



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 or revenues	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 losses of associates	–	–	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)	(488,766,268)	(78,129,220)	(1,196,138,629)	–	(1,189,138,629)
Net income for the year	₱1,431,277,009	₱1,841,348,618	₱176,733,836	₱3,449,359,463	₱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

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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.



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#### 4. Investment in associates and joint venture

The breakdown of investment in associates is as follows:

Associate acquired thru the merger:	
Sky Leisure Properties Inc.	P494,063,894
Other investments	387,140
Carrying value of investment in associates as of June 30, 2016	P494,451,034

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#### 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 January 1, 2016	P31,015,415	P11,628,995	P92,653,515	P135,297,925
Additions	3,146,188,511	3,131,250	1,418,728,399	4,568,048,160
Depreciation	(39,957,119)	(2,497,720)	(41,135,869)	(83,590,708)
Reclassification	—	—	(181,676)	(181,676)
Net book value as at June 30, 2016	P3,137,246,807	P12,262,525	P1,470,064,369	P4,619,573,701

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#### 6. Bank Loans

Principal payments during the period amounted to nil, while proceeds from loan avilment amounted to P694.8 million used to finance the Group's various projects.

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#### 7. Dividends

On March 7, 2016, the Board of Directors approved the declaration of P452.6 million cash dividends to all stockholders of record as of March 21, 2016 to be taken from the unrestricted retained earnings of the Parent Company as of December 31, 2015.

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#### 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 ₱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.
- c. Reimbursement of expenses paid for by SLPC for ESHRI.
- d. Condominium dues charged by TSFSPCC and TECCC.
- e. Sharing of expenses with affiliates.

## 9. Subsequent Events

There are no significant subsequent events that happened as of June 30, 2016 that needs disclosure herein.

## 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 June 30, 2016:

	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	<b>₱35,570,740</b>	<b>₱—</b>	<b>₱—</b>	<b>₱35,570,740</b>
Investment properties:				
Land	—	11,075,160,060	—	11,075,160,060
Buildings	—	—	17,170,453,672	17,170,453,672
	—	11,075,160,060	17,170,453,672	28,245,613,732
	<b>₱35,570,740</b>	<b>₱11,075,160,060</b>	<b>₱17,170,453,672</b>	<b>₱28,281,184,472</b>



	Fair Value Measurement Using			
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Assets for which Fair Values are Disclosed</b>				
Loans and receivables				
Receivables*	₱–	₱1,677,659,055	₱–	₱1,677,659,055
Refundable deposits	–	58,067,673	–	58,067,673
	–	1,735,726,728	–	1,735,726,728
AFS financial assets:				
Unquoted	–	–	488,826,327	488,826,327
Quoted	16,046,515	–	–	16,046,515
	16,046,515	–	488,826,327	504,872,842
	₱16,046,515	₱1,735,726,728	₱488,826,327	₱2,240,599,570

**Liabilities for which Fair Values are Disclosed**

Accounts payable and other current liabilities**	P–	P3,841,609,032	P–	P3,841,609,032
Bank loans	–	13,159,079,487	–	13,159,079,487
Deposits from tenants	–	1,029,466,783	–	1,029,466,783
Accrued employee benefits***	–	8,387,636	–	8,387,636
	P–	P18,038,542,938	P–	P18,038,542,938

\*Excluding advances to contractors and suppliers of P1,028,388,108.

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

\*\*\*Excluding accrued retirement benefits of P39,644,347 in 2016.

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				
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		Total
<b>Assets Measured at Fair Value</b>					
Financial assets at FVPL	₱34,882,100	₱–	₱–		₱34,882,100
Investment properties:					
Land	–	15,701,020,110	–		15,701,020,110
Buildings	–	–	12,477,547,765		12,477,547,765
	–	15,701,020,110	12,477,547,765		28,178,567,875
	₱34,882,100	₱15,701,020,110	₱12,477,547,765		₱28,213,449,975
<b>Assets for which Fair Values are Disclosed</b>					
Loans and receivables					
Receivables*	₱–	₱2,144,511,918	₱–		₱2,144,511,918
Refundable deposits	–	58,480,893	–		58,480,893
	–	2,202,992,811	–		2,202,992,811
AFS financial assets:					
Unquoted	–	–	488,826,327		488,826,327
Quoted	16,046,515	–	–		16,046,515
	16,046,515	–	488,826,327		504,872,842
	₱50,928,615	₱17,904,012,921	₱12,966,374,092		₱30,921,315,628

	Fair Value Measurement Using			Total
	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Liabilities for which Fair Values are Disclosed</b>				
Accounts payable and other current liabilities**	P=	P3,398,805,799	P=	P3,398,805,799
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
	P=	P16,542,993,660	P=	P16,542,993,660

\* 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 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.



## 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 June 30, 2016.

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 June 30, 2016 until its next financial reporting date:

Change in Interest Rate	Effect on Income before Income Tax
Increase by 0.50%	₱65,795,397
Decrease by 0.50%	(₱65,795,397)

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 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.

### 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 June 30, 2016:

	2016				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	₱35,570,740	₱–	₱–	₱–	₱35,570,740
Loans and receivables:					
Cash and cash equivalents	3,452,635,645	–	–	–	3,452,635,645
Receivables:					
Installment contracts receivable	3,767,852,227	1,539,869,897	1,344,248,187	–	6,651,970,311
Rent	295,932,407	–	–	–	295,932,407
Related parties	79,194,056	–	–	–	79,194,056
Advances to officers and employees	4,631,872	–	–	–	4,631,872
Interest	1,760,131	–	–	–	1,760,131
Others	66,319,463	–	–	–	66,319,463
Refundable deposits	–	58,067,673	–	–	58,067,673
	7,703,896,541	1,597,937,570	1,344,248,187	–	10,646,082,298
AFS financial assets	504,872,842	–	–	–	504,872,842
	8,208,769,383	₱1,597,937,570	₱1,344,248,187	₱–	₱11,150,955,140
<b>Other Financial Liabilities</b>					
Accounts payable and other current liabilities*	₱3,841,609,032	₱–	₱–	₱–	₱3,841,609,032
Bank loans	896,666,667	4,257,500,000	4,270,000,000	4,085,833,333	13,510,000,000
Deposits from tenants	477,494,580	551,972,203	–	–	1,029,466,783
Accrued employee benefits**	8,387,636	–	–	–	8,387,636
	₱5,224,157,915	₱4,809,472,203	₱4,270,000,000	₱4,085,833,333	₱18,389,463,451

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

\*\* Excluding accrued retirement benefits of ₱39,644,347.